THE JOURNAL OF THE

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

PUBLISHED QUARTERLY

CONTENTS

2

Depth Tables
Farm Buildings
Natural Resources
Percentage Leases
Upset Prices
Rules of Ethics
Relation of Profit to Value
Pitfalls in Residential Appraising
Valuation Under Modern Conditions
Appraising for Mortgage Loans

VOL. III, No. 3 APRIL, 1935

COMPLETE YOUR LIBRARY

A few copies of earlier issues of *The Journal of the American Institute of Real Estate Appraisers* are available. Some of the feature articles are listed below.

•

VOL. I, NO. 1—OCTOBER, 1932
(Out of print)

VOL. I, NO. 2—JANUARY, 1933 . . . $1.25

What About Rents?.......... *Delbert S. Wenzlick*
Relation of Value to the Purpose of an Appraisal.......... *Ivan A. Thorson*
Condemnation Appraisals .... *Harry E. Gilbert*
Influences of Real Estate Taxes on Value..... *George L. Schmutz and Loring O. McCormick*
Appraisal of Industrial Property.......... *W. G. Burchfield*
Corner Influence .... *Frederick M. Babcock*
Valuation of Gas Stations .... *James D. Henderson*
Liability of the Appraiser.......... *J. George Head*
Severance Damage to an Appartment Site.......... *Ayers J. duBois*

VOL. I, NO. 3—APRIL, 1933 . . . $1.25

A New Approach to Urban Land Valuations.......... *Walter R. Kuehnle*
The Modern Percentage Lease.......... *Capt. Henry Wolfson*
Theoretical vs. Practical Appraising.......... *Ayers J. duBois*
The Appraiser's Duties .... *Francis K. Stevens*
The Real Estate Cycle.......... *John G. Clark*
Management .... *Nathan Libott*
Building for the Ages.......... *Harry G. C. Williams*
Appraisal of a Business Property.......... *Max Tieger*

VOL. I, NO. 4—JULY, 1933 . . . $1.25

The Meaning of Value.......... *Peter Hanson*
Appraisal Practices .... *Arthur J. Mertzke*
Fundamental Economic Concepts.......... *George L. Schmutz and Loring O. McCormick*
Regaining Confidence of American Investors.......... *William W. Butts*
An Appraiser's Proposals.......... *Roy J. Burroughs*
Financial History of a Chicago Property.......... *John P. Hooker*
New Problems for the Appraiser.......... *Stanley L. McMichael*
Rules of Professional Ethics.

VOL. II, NO. 1—OCTOBER, 1933 . . . $1.25

Valuation Principles as Applied to Homes.......... *Arthur J. Mertzke*
106 Value Factors in Residential Property.......... *Philip W. Kniskern*
Appraisal of Single Family Homes.......... *Harry S. Cutmore*
Residential Property .... *Ivan A. Thorson*
Residential Appraisal Manuals.......... *Joseph B. Hall*
Current Appraisal Technique.......... *Henry Musch, Jr.*
What Price the American Home?.......... *Charles B. Shattuck*
Speculation in Suburban Lands.......... *Ernest M. Fisher*
Depreciation, Obsolescence, Lack of Utility.......... *K. Lee Hyder*
The Doctrine of Surplus Productivity.......... *George L. Schmutz and Loring O. McCormick*
Industrial Property .... *Percy A. Gaddis*

Continued on Inside Back Cover

199

The JOURNAL *of the*

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

K. Lee Hyder, *Editor-in-Chief*
Harry Grant Atkinson, *Managing Editor*

Volume III | April, 1935 | Number 3

CONTENTS

Depth Tables.......................... *Stanley L. McMichael,* M. A. I. 205
Valuation Under Modern Conditions.................. *J. George Head* 212
The Administrative "Joker" in the Federal Securities Act............. .... *K. Lee Hyder,* M. A. I. 223
The Relation of Profit to Value.. .... *George L. Schmutz,* M. A. I., and *Loring O. McCormick* 229
Valuation of Land with Underlying Natural Resources................ .... *Philip W. Grossman*.236
Percentage Leases.................................... *C. J. Pearce* 242
The Place of Buildings in Appraising Illinois Farms... *Charles L. Stewart* 248
Appraising Single Family Residences........... *Wm. E. Mosby,* M. A. I. 253
Pitfalls in Residential Appraising............... *Nathan Libott,* M. A. I. 259
Appraising for Long Term Mortgage Loans............... *Horace Russell* 264
Upset Price Appraisals.......................... *Andrew C. Hamilton* 267
Comment and Discussion.. 269
Rules of Professional Ethics.. 273
Current Articles 276
Book Reviews 277
Digest of Minutes... 281
New Members 286
Roster of Members... 294

This publication is provided as a medium for the expression of individual opinion concerning appraisal practice and procedure and topics allied thereto. The articles printed herein do not necessarily represent the endorsement of the Institute nor of the majority of the members excepting as such statements may be designated as approved by the Governing Council. The Editors exercise only a general supervision of the material and assume no responsibility for the opinions expressed by the contributors.

Published quarterly by the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards at 59 East Van Buren Street, Chicago, Ill.

Entered as second class matter January 17, 1933, at the post office at Chicago, Illinois, under the act of March 3, 1879. Subscription rates: $5.00 a year; $1.25 a copy. Remittances may be made by personal checks, drafts, post office or express money orders, payable to the American Institute of Real Estate Appraisers, Chicago, Ill. Printed in the United States of America.

Contributors to This Issue

Philip W. Grossman, Special Representative of The American Appraisal Company—an expert on the valuation of natural resources. Milwaukee, Wisc.

Andrew C. Hamilton, Member of the Illinois Bar, associated with Kirkland, Fleming, Green & Martin. Chicago, Ill.

J. George Head (Chartered Surveyor). Member of the Auctioneers' and Estate Agents' Institute. London, England.

K. Lee Hyder, M.A.I. Asst. Vice-President of The American Appraisal Company, Member Michigan Society of Architects and the Society of Industrial Engineers. Milwaukee, Wisc.

Nathan Libott, M.A.I. Appraiser and Lecturer. Los Angeles, Calif.

Stanley L. McMichael, M.A.I. Appraiser, Lecturer, and Author. Los Angeles, Calif.

Wm. E. Mosby, M.A.I., President, Wm. E. Mosby & Co., Inc., and Inland Construction Co., and Chief District Appraiser of H.O.L.C. Chicago, Ill.

C. J. Pearce, Vice-President, Mercantile Arcade Realty Co, Los Angeles, Calif.

Horace Russell, General Counsel of the Federal Home Loan Bank Board. Washington, D. C.

George L. Schmutz, M.A.I. Appraiser, Engineer, Economist, Lecturer, Author. Los Angeles, Calif.

Charles L. Stewart. Chief of the Department of Land Economics, College of Agriculture, University of Illinois.

Looking Ahead!

The following articles now in preparation will appear in this Journal in subsequent issues:

The Management Factor

Analysis of the Competitive Factor

Condemnation Appraisal Procedure

Appraisal of Trees and Shrubbery

The Influence of Special Assessments on Home Values

The Influence of Special Assessments on Farm Values

Neighborhood Factors in Appraising Outlying Business Property

Neighborhood Factors in the Appraising of Homes

The Appraisal Report

Real Estate Board Appraisal Committee Work

The Technique of Preparing for Court Cases

The Appraisal of Cemeteries

The Appraisal of Warehouses

The Appraisal of Riparian Rights

The Appraisal of Air Rights

New Developments in the Technique of Tax Appraisals

Appraising Real Estate for Mortgage Loans

Population Trends

Appraising Percentage Leases

Work Sheet for Use in Appraising Homes

Alley Influence

The Treatment of Depreciation

Procedure in Appraising Leasehold Interests

201

Announcement

Award for Manuscripts

The Journal is becoming more and more popular with the general public. Many favorable comments have been received concerning the character of its articles and the wide scope of the subjects presented. While this is gratifying to the Editors, the credit, of course, goes directly to those Institute Members who have been the principal contributors.

We intend to foster and encourage this outside interest and thereby continue our part in spreading the gospel of sound appraisal practice. Our primary object, however, will always be directed toward the dissemination of information helpful to the membership.

To this combined end we shall keep the pages of the Journal open, principally for the free expression of ideas and experiences of the Members, the only limitations being that the manuscripts accepted for publication shall be appropriate and well-prepared. Articles relating to controversial subjects will be welcomed, and there will be no "hand-picking" for the purpose of favoring the convictions of the Editorial Staff.

We are concerned, however, with the character of the material. We want the articles to be increasingly significant—to consist of outstanding contributions to appraisal development. To this end we are going to recognize unusual merit in the future manuscripts offered to us for publication. While this is not to be considered as a "prize contest" in the ordinary sense of the term, we *are* going to accompany our recognition with monetary awards. We hope this may stimulate greater interest, particularly upon the part of our younger Members, although the plan perhaps may not be unacceptable to any of us in these days of stress.

The Journal, therefore, announces a series of awards for meritorious articles to be selected from those received and published during the coming year. The subjects are unlimited. You may select from the entire range—land economics, appraisal principles, theory of valuation, appraisal data, and methods—or present practical studies predicated upon your particular experience. In general, the manuscripts should be typed, double-spaced on standard 8½ by 11 inch stationery, and of such length as to form from 16 to 20 pages of typewritten matter—although neither longer nor shorter articles will be disregarded for this factor alone.

The "Awards" will be announced at a proper time. The accompanying monetary considerations will be substantial and well worth striving for. These will be made at the discretion of the Editorial Committee and may range from $10.00 to as high as $100.00 for particularly outstanding contributions.

It is obvious that the earlier your manuscript is received, the better the opportunity for its inclusion in the forthcoming issues—the form and set-up of which are established far in advance of the actual publication date.

It has been said that every human being harbors, at least secretly, a desire to write. Here's your opportunity to write upon the subject you know the most about for publication in your own magazine. Of more importance, you will be doing your part toward the furthering of the ideals of the Institute and the purposes for which it was created.

All manuscripts are to be mailed to the Journal Editor, care of Harry Grant Atkinson, 59 E. Van Buren Street, Chicago, Ill.

American Institute of Real Estate Appraisers

Officers and Committee Chairmen

JOSEPH B. HALL.....................President
35 E. 7th St., Cincinnati, Ohio
HARRY E. GILBERT..............Vice-President
2 E. Lexington St., Baltimore, Md.
MAURICE F. REIDY..............Vice-President
2 Foster St., Worcester, Mass.
E. L. OSTENDORF................Vice-President
1105 Chester Ave., Cleveland, Ohio
PETER HANSON ....Vice-President
520 Security Bldg., Glendale, Calif.
J. ALVIN REGISTER.............Vice-President
114 Graham Bldg., Jacksonville, Fla.
RALPH D. BAKER................Vice-President
924 Broadway, Camden, N. J.
HERBERT U. NELSON................Secretary
59 E. Van Buren St., Chicago, Ill.
MARK LEVY ....Treasurer
7 So. Dearborn St., Chicago, Ill.
HARRY GRANT ATKINSON..................
.........................Director of Activities
59 E. Van Buren St., Chicago, Ill.

Governing Council

Term Expiring December 31, 1937

Joseph B. Hall, Cincinnati, Ohio.
A. C. Houghton, Washington, D. C.
W. H. Ballard, Boston, Mass.
Hill Ferguson, Birmingham, Ala.
Arthur S. Kirk, Des Moines, Iowa.
Ralph D. Baker, Camden, New Jersey.

Term Expiring December 31, 1936

Harry E. Gilbert, Baltimore, Md.
K. Lee Hyder, Milwaukee, Wisc.
Norman L. Newhall, Minneapolis, Minn.
E. L. Ostendorf, Cleveland, Ohio.
Fenwick B. Small, Brooklyn, New York.
Frank H. Taylor, East Orange, New Jersey.

Term Expiring December 31, 1935

Cyril R. DeMara, Toronto, Ont., Can.
Peter Hanson, Glendale, Calif.
Philip W. Kniskern, Philadelphia, Pa.
J. Alvin Register, Jacksonville, Fla.
Cuthbert E. Reeves, Buffalo, N. Y.
Maurice F. Reidy, Worcester, Mass.

Representing Board of Directors of N. A. R. E. B.

Henry G. Zander, Chicago, Ill.

Committee Chairmen

Admission Committee—E. L. Ostendorf.
By-Laws Committee—Harry E. Gilbert.
Disciplinary Committee—W. H. Ballard.
Education and Research Committee—K. Lee Hyder.
Ethics Committee—Frank H. Taylor.
Finance Committee—Philip W. Kniskern.
Local Chapters Committee—Cuthbert E. Reeves.
Membership Committee—J. Alvin Register.
Public Relations Committee—Ralph D. Baker.

Officers of Local Chapters

New Jersey Chapter Number 1

President—John J. Berry, Newark, N. J.
Vice-President—Edward J. Maier, Newark, N. J.
Treasurer—John K. Leeds, Elizabeth, N. J.
Secretary—Wayland P. Cramer, Camden, N. J.

Florida Chapter Number 2

President—D. Earl Wilson, Miami, Fla.
Vice-President—Frank R. Jewett, Vero Beach, Fla.
Secretary—Harry J. Wood, Fort Myers, Fla.
Treasurer—J. C. Stewart, Orlando, Fla.

Ohio Chapter Number 3

President—Lewis R. Smith, Cincinnati, Ohio.
Vice-President—L. D. Scranton, Alliance, Ohio.
Vice-President—T. D. Auble, Cleveland, Ohio.
Secretary—James J. Grogan, Cincinnati, Ohio.
Treasurer—Mark Hambleton, Canton, Ohio.

New York Chapter Number 4

President—Bracton Goldstone, New York City, N. Y.
Vice-President—William F. MacDermott, Jamaica, L. I., N. Y.
Secretary—James F. Mathews, Brooklyn, N. Y.
Treasurer—John R. Hoyt, New York City, N. Y.

California Chapter Number 5

President—George H. Coffin, Jr., Los Angeles, Cal.
Vice-President—Charles B. Shattuck, Los Angeles, Calif.
Secretary and Treasurer—Nathan Libott, Los Angeles, Calif.

Illinois Chapter Number 6

President—Mark Levy, Chicago, Ill.
Vice-President—Ralph V. Field, Galesburg, Ill.
Secretary—Kenneth Calhoun Brown, Chicago, Ill.
Treasurer—George Robert Quin, Chicago, Ill.

New England Chapter Number 7

President—Maurice F. Reidy, Worcester, Mass.
Vice-President—John T. Sloan, New Haven, Conn.
Secretary-Treasurer—William H. Ballard, Boston, Mass.

203

President's Page

THE advancement of the science of appraising is one of the primary purposes of the Institute, if not the most important. Unless progress is made in appraisal thought, the Institute is not justified. We are a professional society. It is the purpose of this Journal to present progressive thinking in our field.

Two activities are under way at the present time, both of which will mean much to the Institute. The first is the development of standard terminology. Those of you who were at Houston heard the presentation of the tentative report by Mr. K. Lee Hyder. Not only is his committee developing a terminology which will have acceptance among our members, but a joint meeting is being held with similar committees from the American Society of Civil Engineers and the American Institute of Accountants so that appraisal terms which are accepted by our committee will also be accepted by these two other groups. This step alone will represent a major accomplishment. A draft of the tentative report will be sent to members within the next few months with a request for comments. Here will be an opportunity for you to help the work of the Institute.

The other activity is a proposed school in Real Estate Appraisal to be sponsored by the Institute in conjunction with the University of Chicago. The plans call for a concentrated course this summer, covering the practical as well as the theoretical side of appraisal. The principles and procedures taught in the classroom will be put to practical tests in the appraisal of actual properties under the supervision of competent instructors selected from our own membership. Based upon this course a syllabus will be prepared which will be made available to other institutions which may desire to offer similar courses. The Institute will thus assume leadership in the educational field relating to real estate appraisal.

One other activity of major importance is that of the Public Relations Committee. This is an enlargement of the former Legislative Committee. Its function is not only to watch all legislation relating to the real estate appraisal field, such as licensing appraisers, but to be the clearing house for all matters affecting the relationship of the Institute with the public. This committee has a widespread membership so that all matters of importance will be brought to its attention. Will each of you make it a point to bring to the attention of this committee all matters affecting the Institute?

The Institute has made much progress since its inception. There is much yet to be done. The activities described above are only a part of the program for the year. This program has developed from ideas suggested by the Members. Remember this is your Institute. To secure the greatest benefit from membership, you must participate in its activities. Suggestions are not only welcomed but invited. It will need the cooperation of all to continue the progress which has been made up to the present time.

Joseph B. Hall

President, American Institute of Real Estate Appraisers.

The Estimate and the Guess

Some years ago a nationally prominent structural engineer was called as an expert to examine a building being appropriated under condemnation, and to testify concerning the safe allowable floor loading. He had designed the structure and, reviewing at some length the specifications and the condition of the construction, he concluded with an opinion that the "safe live floor load" for the building was 150 pounds per square foot.

The appraiser who had preceded him upon the stand had qualified as a man of wide experience and stated as his opinion that the "market value" of the property was $125,000.00.

That evening the engineer and appraiser met at dinner and were commenting on the case. "After all," the engineer said, "your appraisal is only a guess whereas my estimate was supported by definite mathematical calculations."

"Perhaps," replied the appraiser, "but what is the basis of your formula? For example, in determining the 'safe' load for the steel beams and girders—what unit of strength did you adopt?"

"Sixteen thousand pounds to the square inch as the tensile strength," was the ready reply.

"And why sixteen thousand pounds?"

"Because," said the engineer, "we know from experience that steel of the kind used in this building does not reach its 'elastic limit', that is, the point at which it will return after the removal of the load, until the stress reaches about 64,000 pounds per square inch. We adopt a 'factor of safety' of 4 and hence 16,000 pounds is the correct figure."

"But why," persisted the appraiser, "do you use a factor of safety of 4? Why not 3 or 2? Or why not an actual approximation of the load which you have *proven* it will support? If we couldn't come closer to the proper figure than that, we wouldn't call our figure even a good guess."

"Well," was the doubtful reply, "our engineering standards have developed this practice in the interests of absolute safety. One never knows, of course, whether the steel might not have a flaw or be poorly installed. Besides, the building code of the city demands it."

"And can you say," the appraiser continued, "that your opinion is an 'estimate supported by mathematical calculation', and that my 'appraisal is only a guess' when you admit to a possible allowance for error of 400 per cent?" A noticeable halt in the conversation—then—"About what range may be anticipated in your figures?"

"Perhaps 10 per cent one way or the other would be usual, although on occasions it might exceed that spread. The demand for my services would soon cease if my 'guesses' were to stray too far from the actual."

"You win," admitted the engineer. "My apologies and I 'guess' hereafter as a 'factor of safety' I'll stick to my own problems."

Everything in this world that concerns an opinion of movement or futures is a "guess." It becomes an "estimate" when arrived at following a thorough investigation of all relevant factors by one who, through his training and experience, has attained the capacity for sound judgment. Appraising is not and can never be an exact science but it ranks high in the relative accuracy of its determinations.

265

The JOURNAL *of the*

AMERICAN INSTITUTE OF
REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

Volume III | APRIL, 1935 | Number 3

Depth Tables

By STANLEY L. MCMICHAEL, M.A.I.

SUBJECT to certain restraining conditions it seems perfectly obvious that real estate lots of different depths, in a single block, should have different values assigned them. This led many years ago, to the development of what are commonly known as depth tables, which on some occasions are valuable as tools in the hands of the skillful appraiser of real property.

Probably the first depth table ever conceived was what is commonly known as the 4-3-2-1 rule. Here the front 25 feet of depth of a 100 foot lot valued at $100 per foot front is assigned a value of $40; the next 25 feet is valued at $30 per foot; the succeeding 25 feet at $20 a foot; and the rear 25 feet at $10. This method was used as a rule of thumb for many years by some appraisers; and it was on this foundation that efforts were finally made to develop depth tables.

As far as known the first attempt to create a uniform table was made by Judge Murray Hoffman in New York in 1866, some 68 years ago. Hoffman evolved a table that is still in use by some appraisers in which he maintained that the first 50 feet of depth of a 100 foot lot carried a value of two-thirds of the whole, the rear 50 feet being worth one-third. Later, in cooperation with Henry Harmon Neill of New York this process was somewhat refined and there came into existence what has become known as the Hoffman-Neill rule which is still used extensively in New York.

Subsequently other depth tables were developed; and they have been widely used. These were produced by such authorities as William Davies, Alfred D. Bernard, A. C. Pleydell, W. A. Somers, Dr. Willford Isebel King, John A. Zangerle, Thomas McMahon, Cuthbert Reeves, and others. In Los Angeles, Ivan Thorson has developed a very complete set of depth tables based on conditions peculiar to that city and district.

Considerable discussion has taken place, from time to time, as to the usefulness and value of depth tables in real estate appraising. There is no doubt but that depth tables have their limitation, yet on occasions it is very certain that they are useful in solving certain problems of the appraiser.

Primarily, depth tables are found most useful in mass appraising for assessment purposes. In this field the need for uniformity is most necessary. In older sections of cities it is often found that there is no uniform depth for groups of lots situ-

ated in the same city block. One lot may be 100 feet deep while on one side may be one 120 feet and on the other a lot which is 200 feet deep. Certainly the man who has a lot only 100 feet deep does not feel happy if he is called upon to pay the same tax as that assessed against the owner of the 200 foot lot. I do not believe there is any one who questions the usefulness of depth tables in appraising for assessment purposes.

Some thirty to forty years ago the conditions which existed in many cities in regard to assessing property were scandalous. Graft was rampant. The assessor went along a street and recklessly appraised lots without method and from a purely arbitrary standpoint. This condition was greatly improved after uniform depth and corner tables were adopted and scientifically applied. The application of assessments then became largely a mathematical problem and understandable to everyone.

In 1923 in connection with my publication of a book entitled *City Growth and Values* occasion was taken to make a detailed study of depth tables and their differences. Some twelve different depth tables of repute were examined and an average struck. Considerable lack of uniformity was noted, yet the tables on the whole were no farther apart than some competent appraisers who review the same problem upon given statements of facts. For the sake of the record this complete table is reproduced herein.

Mark Levy, M. A. I., of Chicago, has attacked the use of depth tables and draws attention to variances which occur in different representative tables as follows:

At 50′ in depth the value percentages vary from 57.5% to 75%.

At 75′ in depth the value percentages vary from 76.9% to 90%.

At 100′ in depth the value percentages vary from 88.0% to 100%.

At 125′ in depth the value percentages vary from 95.0% to 119.35%.

At 150′ in depth the value percentages varv from 109.5% to 137.5%.

Personally I have always used the Cleveland table, so-called, evolved by John A. Zangerle of Cleveland, who based his calculations largely upon a depth table created by W. A. Somers of Milwaukee. It is, in my opinion, the most complete one in existence as it extends to a depth of 700 feet, whereas many of the tables end at depths ranging from 125 to 250 feet. Sometimes I use my own average of all the tables as being the fairest. Only occasionally is the professional appraiser called upon to solve a problem which necessitates the use of a depth table but when that occasion arises, the result is more satisfactory when opinion is based on one of the more authoritative tables now in use.

Some of the objections voiced by those who do not approve of the way depth tables have been evolved and are being used are:

L. D. McPherson, valuation attorney, in *National Real Estate Journal*, Sept. 2, 1929:

It is speculation to apportion different values to different portions of a tract of land all of which is reasonably necessary as a unit of use. No body of accurate data has been disclosed by the authors of commonly accepted depth tables that can be accepted as possessing genuine statistical value. The front, middle, or rear portions of a single tract do not remain of uniform relative desirability in all the varying uses and classes of land or in the same class in different sections of any considerable city. Tables, curves, or mathematical, or mechanical devices for distributing values of land in street corners or in lots varying from some assumed standard length from street frontage access, are without foundation, are superficial makeshifts, and unreliable for determining comparable or probable normal market value of land.

Mark Levy, M. A. I., Chicago, consistent opponent of the use of depth tables and similar data:

Diligent inquiry fails to ascertain that any pur-

ported analytical or scientific treatment of data in support of any depth tables for valuing land have been made or that such rules have ever been approved by any court or the National Association of Real Estate Boards. Sale or lease prices of scattered properties which vary in length from street frontage and which vary in use, class, and surrounding influences constitute such a mixture of unclassified data that no uniform percentage relation of the value per foot front of longer or shorter lots can be established.

Frederick M. Babcock, Chicago, now directing head of appraisal procedure for the Federal Housing Administration at Washington:

No great amount of inquiry into the fundamental concept of the depth table seems necessary to me. Of course people recognize that additions to depth do not add proportional value in town lots. When Judge Hoffman ruled that the front half of a lot was worth two-thirds of the total value he tersely stated a generality which all individuals familiar with real estate immediately recognized as true—not the two-thirds, of course, but the idea of the thing. The ability to determine the value of a second parcel by recourse to a consideration of the relative geometry of the two is to avoid the practical issue and problem present. It seems to me that the value of the second parcel is best discovered by an inquiry into its productivity rather than comparing depths, etc. The comparison concept must enter the valuation technique, however, and it is my opinion that it should do so—not in the form of a comparison of total values, but in the form of a comparison of rentals, expenses, interest rates applicable, competitive effects and all of those elements which tend to determine productivity.

Replying to these opinions which reflect upon the use of depth tables are four authorities, John A. Zangerle, assessor at Cleveland, O.; Alfred D. Bernard, former noted appraiser; Charles P. Glover, former real estate commissioner for Florida; and Loring O. McCormick of Los Angeles. Mr. Zangerle says:

I have yet to find an owner of property fronting perhaps 50 feet on a street with a depth of 50 feet denying that this was worth far more than the tail end of a standard lot immediately in the rear fronting, perhaps, on an alley, a side street, or perhaps fronting nowhere. Indeed, our large units of use, such as theaters, department stores, etc., are spread over many small separately owned units, some fronting on a front street, some part, perhaps, on a rear street, near alley, or side alley. These sub-units of larger units must be revalued periodically. It would be stupid and inspire vigorous opposition to appraise them at the same average value as the entire occupying use may amount to. If there is no long or short rule worthy of consideration, then it is time we create one, for it is certain that appraisers who do not use a standard with more or less fixed modifications for variation are unable to make comparisons of the very few comparable sales and are therefore unable to give a comprehensive, worthwhile judgment, capable of standing up under cross examination.

Alfred D. Bernard, noted appraisal authority:

There is a standard of measures of various things offered for sale. We buy liquids by the quart, dry goods salesmen use a yardstick, the grocer a scale. Therefore, to properly express land we must use a measure. For farm land we use the term acre. In cities we use the term foot, meaning a front foot. Trained exponents of land values use the unit foot. Any other expression than the unit foot for land measure is unsatisfactory and conjectural.

Charles P. Glover, M. A. I., has this to say:

No compiler of a depth table ever intended it to be used as the basis of value. The depth table is not even a factor to be considered in the appraisal of a piece of property. The table is merely a time saver or measuring rod which serves as a useful guide to the judgment. The competent appraiser will consider each and every factor affecting property to be appraised and will balance them according to his best judgment and in setting up a physical value of the property he will certainly consider the size and shape of the lot. Cloth is measured by the yard. One yard of the same bolt of cloth is worth the same as another. We know, however, that the front 25 feet of a high priced business lot is worth more than the next and the second is worth more than the third and so on. So the measuring rod applied to the lot must be graduated in order to measure values correctly. The compilers of these tables tried to arrive at the relative values of the different portions of the lot. That they succeeded fairly well is proven by the increased use of depth tables. At the worst they are more accurate than individual guesses.

Loring O. McCormick, of Los Angeles, says:

If we state, as some do, that depth tables are useless, we make an assertion which critical analysis shows to be at variance with fact. If we at-

COMPARISON OF DEPTH TABLES
(Copyrighted)

(Copied from "City Growth and Values" by Stanley L. McMichael and Robert F. Bingham).

This table has been compiled for comparison, showing the relative values of lots of varying depths in business districts. All but two of these tables consider the standard lot to be 100 feet deep in a business district. The Lindsey-Bernard rule and the Pleydell rule consider the standard to be 150 feet. Lots of less depth than the standard of 100 feet are graded in value less according to the percentage indicated in the table, and lots in excess of the standard are graded in value higher according to the percentage indicated.

Used by permission of Stanley L. McMichael M. A. I.

Feet in Depth	4-3-2-1	Hoffman	Hoffman Neill	Newark Rule	Lindsey-Bernard	Somers	Chicago	Milwaukee	Harper-Edgar	Davies-N. Y.	Cleveland	Martin-Chicago	McMichael Bingham Average
5	9.4	....	17	....	9	14.35	14.9	17	23.0	12.6	14.35	14.95	15.28
10	17.8	16	26	25	15	25	19.9	28	31.0	21.7	25	19.90	25.13
15	25.6	23.5	33	....	21	33.22	25.0	37	39.0	29.2	33.22	24.75	30.36
20	33	31	39	42	27	41	30.1	44	45.0	35.8	41.	29.6	36.95
25	40	37.5	44	....	33	47.9	34.3	49	50.	41.7	47.9	34.35	42.67
30	46.7	44.	49	58	38.5	54.	39.9	54	55.	47.1	54.	39.1	48.28
35	53.1	50.	54	....	44.	59.2	....	59	....	52.1	59.2	43.75	....
40	59.1	56.	58	68	49.	64.	48.8	63	63.	56.8	64.	48.40	58.11
45	64.7	61.5	63	....	54.	68.45	....	67	....	61.3	68.45	52.95	....
50	70	67.	67	75	58.5	72.5	57.5	70	70.5	65.4	72.5	57.5	66.99
55	74.9	71.5	71	....	63.	76.2	....	74	....	69.4	76.2	61.95	....
60	79.4	76.	74	80	67.	79.5	67.0	77	77.5	73.4	79.5	66.4	74.97
65	83.4	80.	78	....	70.6	82.61	....	80	....	77.1	82.61	70.75	....
70	86.9	84.	81	85	73.9	85.6	76.0	84	83.6	80.6	85.6	75.10	82.24
75	90	87.5	84	....	76.9	88.3	79.3	87	86.6	84.1	88.3	79.35	....
80	92.22	91.	88	90	79.6	90.9	84.0	90	89.4	87.6	90.9	83.60	88.76
85	94.22	93.5	91	....	82.	93.33	....	93	....	91.	93.33	87.75	....
90	96.17	96.	94	95	84.2	95.6	92.2	95	95.	94.	95.6	91.90	94.55
95	98.1	98.	97	....	86.2	97.85	....	98	....	97.	97.85	95.95	....
100	100.	100.	100	100	88.	100.	100.	100	100.	100.	100.	100.	100.
105	101.89	....	....	....	89.6	102.08	....	102	....	103.	102.08	103.95	....
110	103.76	....	....	104	91.1	104.	108.	103	105.	106.	104.	107.90	105.2
115	105.585	....	....	....	92.5	105.78	....	105	....	108.7	105.78	111.75	....
120	107.35	....	....	108	93.8	107.5	116.	107	109.5	111.2	107.5	115.6	110.2
125	109.	....	112	....	95.	109.05	119.3	109	112.6	113.7	109.05	119.35	112.56
130	110.6	....	....	112	96.1	110.5	....	110	....	116.2	110.5	123.10	....
135	112.2	....	....	....	97.2	111.8	....	112	....	118.7	111.8	126.75	....
140	113.8	....	....	116	98.2	113.	131.0	113	118.2	121.2	113.	130.40	....
145	115.4	....	....	....	99.2	114.5	....	114	....	123.7	114.05	133.95	....
150	117.	....	118	120	100.	115.	137.5	115	122.4	126.2	115.	137.50	123.73
155	118.4	....	....	....	....	....	....	116	....	128.7	115.95	140.95	....
160	119.8	....	....	124	....	....	145.0	117	126.4	131.2	116.8	144.40	....
165	121.2	....	....	....	....	....	....	118	....	133.7	117.64	147.75	....
170	122.6	....	....	127	....	....	....	118	....	136.2	118.4	151.10	....
175	124.0	....	122	....	103.	119.14	154.5	119	132.3	138.7	119.14	154.35	131.44
180	125.2	....	....	129	....	....	158.0	120	134.2	141.2	119.8	157.60	....
185	126.4	....	....	....	....	....	....	120	....	143.2	120.43	160.75	....
190	127.6	....	....	131	....	....	....	121	....	145.2	121.	163.90	....
195	128.8	....	....	....	....	....	....	122	....	147.2	121.53	166.95	....

COMPARISON OF DEPTH TABLES (Concluded)

Feet in Depth	4-3-2-1	Hoffman	Hoffman Neill	Newark Rule	Lindsey-Bernard	Somers	Chicago	Mil-waukee	Harper-Edgar	Davies-N. Y.	Cleve-land	Martin-Chicago	Mc-Michael Bingham Average
200	130.	....	125	133	105.	122.	170.	122	141.4	149.2	122.	170.00	139.07
250	....	....	....	....	....	....	....	126	158.	....	126.05	....	....
300	....	....	....	....	....	....	....	....	....	....	129.25	....	....
350	....	....	....	....	....	....	....	....	....	....	131.9	....	....
400	....	....	....	....	....	....	....	....	....	....	134.2	....	....
450	....	....	....	....	....	....	....	....	....	....	136.15	....	....
500	....	....	....	....	....	....	....	....	....	....	137.85	....	....
550	....	....	....	....	....	....	....	....	....	....	139.3	....	....
600	....	....	....	....	....	....	....	....	....	....	140.55	....	....
650	....	....	....	....	....	....	....	....	....	....	141.55	....	....
700	....	....	....	....	....	....	....	....	....	....	142.35	....	....

tempt to estimate the worth of lots of varying depths we must at every point assume that certain depths possess a certain degree of actual or potential productivity and in estimating the degree of this productivity either from a rental or a sales standpoint we tacitly affirm that which we deny, namely that varying depths have varying values in relation to all other depths. The economist and appraiser must of necessity use the tables, as at present developed, correcting for various uses and operation of economic forces where his knowledge and experience indicate such procedure warranted.

The foregoing gives some idea of opposing views of competent critics of the practice of using depth rules. Personally, I favor their use in a limited and cautious manner. For assessment appraising they are invaluable because of the element of uniformity they give. In specific appraisals they must be carefully yet skillfully adapted.

In appraising the average home site, only occasionally will it be necessary to use depth rules. Of course the width and depth of each lot is always carefully considered but the appraiser will in a general way determine the per foot front value to assign without having recourse to a depth table. The additional depth of a few feet on a residential lot seldom adds a great deal of actual value unless the standard lot in the locality is a very shallow one. For instance, the difference between a home site 150 feet deep and two adjoining lots which may be 160 feet and 170 feet, respectively, is very slight and may readily be reflected in the appraiser's opinion of foot front value.

In condemnation appraising, depth rules are often useful. Here a contest between owner and the public agency which is seeking to dispossess the owner is being waged; and every bit of evidence that can be produced is desirable. If the amount of land being taken in a street widening case, for instance, is of very shallow depth, the depth rules can be applied in a "before" and "after" computation and the damage reflected by usually allowing an amount which would represent the value of the land being severed from the extreme rear of the lot instead of from the front thereof. Only through the use of a depth table can such a proceeding be intelligently carried through.

It is in the evaluation of prime business property in intensively built up sections of the larger cities where a depth table can be used to advantage. Here every square inch of land has value; and in sections where the land is devoted to high power retail store use, the element of value nat-

urally attaches to the area of land fronting directly on the heavily travelled thoroughfare. This is particularly true of small shops of an exclusive character for which high rentals are paid. It does not attach to large department stores, but perhaps that only proves the rule. In large stores every square foot of land is intensively used and often the busiest departments are placed farthest from the street for the purpose of pulling trade back into the store, during which process goods in other departments are temptingly exposed to the inspection of prospective buyers.

Perhaps the greatest weakness of the depth rule is the fact that it harkens back to the old summation method of appraising wherein the valuation by various methods determined the value of a tract of land, then estimated the reproduction cost less depreciation of a building, added the two together and assumed that that was the real value of the property. Today we know that such a method of appraising income property is erroneous. Real value of most types of real estate today is discovered by a careful analysis of productivity whereby net income is properly capitalized into a sum which represents the value of land and building. By further refinement either land or building is made residual and we have a process whereby it is thus determined just what a property is capable of earning in the way of net return. Most competent appraisers recognize and accept this principle and do not attempt to inject the use of depth rules except when by such use they may be able to check or solve a particular problem which baffles them.

In the valuing of industrial property, depth rules may sometimes be used in a neighborhood which is changing from industrial to business use. Factory property can best be valued on a square foot basis, for in many cases every square foot of a site can be advantageously employed in some of the manufacturing processes and street frontage is of minor consequence. In fact, it is sometimes actually a detriment, for it may involve the paying of assessments on street improvements which add little to the use value of the property. In cases known to all of us large industrial enterprises have sold off their street frontage for business and light manufacturing purposes, retaining large areas of interior lands which they have advantageously employed.

The reason so many depth tables have appeared is perhaps due to the fact that there is some difference of opinion on this subject. It seems desirable that an effort be successfully carried through for the compilation of a more or less standardized set of tables, covering various types of property and adjustable to conditions in a large country where conditions differ due to climate, business practices, and economic conditions. If the American Institute of Real Estate Appraisers, for instance, could agree upon a concerted plan to compile new and up to date depth tables and carry such a plan through to completion, the whole subject might be clarified and a foundation laid for their intelligent preparation and use.[1] I do not hold any brief for the use of depth tables, though I do earnestly believe they can be advantageously used upon particular problems, when intelligently and cautiously applied.

Men newly entering the appraisal field are sometimes fascinated with depth and corner tables, believing they offer a ready mechanical means to determine value. They become addicted to their use and

[1]The suggestion is made that the Institute compile new and up-to-date depth tables. The Editor feels that even though depth tables may have some use, as outlined by Mr. McMichael, it would be necessary to develop a depth table for each city, since conditions from town to town vary to such an extent that any standard depth table, even though subjected to modification, would be impractical.—EDITOR.

apply them on every occasion possible. Depth tables are media for measuring values under certain circumstances but never determine such values. *Nothing can become a substitute for trained and seasoned judgment!*

Just what is seasoned judgment and how may it be developed? To my mind, the first consideration is an individual mental endowment which evidences good judgment in the ordinary affairs of life. Is the student prudent in his every-day conduct? Has he discretion in his relationships with his fellow men? Does he readily distinguish between right and wrong? Judgment enables a person to discover the truth about a matter under investigation and is based on knowledge and factual experience.

Being the possessor of proper mental equipment the student may proceed to learn and absorb the existing academic data on the subject he is delving into. No one can, or ever does, learn too much about any subject. Rather are we inclined to be superficial and believe we have mastered a subject when we have been barely introduced to it.

Following studious examination, comes judicious application of the knowledge obtained. From this, over periods of time, is obtained experience and no appraiser may be said to possess seasoned judgment until *he has had long and wide experience* in the appraisal field. The more complete the appraiser's knowledge and experience, the less liable is he to lean heavily on such contrivances as depth tables. He will use them when they offer a means to an end but he will be cautious in their application and carefully weigh the significance of the results they present in his problem.

There is no doubt but that a refinement and standardization of depth tables is desirable. To make a careful and exhaustive study requires the application of mental skill, time, and money to a subject about which nobody at present seems to be vitally concerned. The present tables in general use have been evolved out of the experience of many persons over long periods of years. They serve definite purposes and by the discerning appraiser may be regarded as part of the equipment necessary to solve more or less involved problems in certain fields of valuation work.

Valuation Under Modern Conditions

By J. GEO. HEAD (Chartered Surveyor)

(Reprinted from the Journal of the Chartered Surveyors' Institution)

OF the subjects which today present themselves for our consideration, one of the most perplexing is that of Valuation. I refer here to the valuation, not of chattels, but of land and house property, and the various interests therein. A knowledge of such valuation is the bedrock of a surveyor's business, cropping up in almost every transaction with which he is concerned, whether in letting, buying or selling property, or in advising as to value.

For this reason long experience should bring with it that facility of execution which ordinarily attends familiarity with any subject. Shall I not, however, touch a sympathetic chord in your hearts when I confess that, after a professional career of more than average length, I find valuation more difficult today than I did years ago? Time was when comparison of one's own dealings with those of others afforded a reasonably sure means of valuing any property. The established custom of a world politically and economically stable furnished standards upon which we could comfortably rely. The values of every class of property had crystallised along lines which were broadly recognised. The number of years' purchase appropriate to the rental of a given property was fairly defined, it being only necessary to adjust the figures to meet the conditions of the particular property under consideration. That such is no longer the case must be acknowledged by anyone who regards the vicissitudes of property values during the last thirty years.

He will have seen freehold ground rents vary from 33 years to 20 years' purchase, other classes of property following suit.

He will have seen, in the early War years, houses fall to half, only to rise after the War to double the pre-War value.

He will remember the phenomenal expansion of the demand for accommodation, of which the first result was that for a time, and given possession, any property would sell at almost any price, and of which the abiding result is the existence of hundreds of thousands of small houses spread all over the country.

He will have seen fundamental changes in the habits of the people, which have made the large house a drug on the market, while the desire for compactness must be met whatever else be sacrificed. The advent of the motor-car has not only emphasised these changes but has, in addition, by bringing in its train the arterial road and the invasion of regions hitherto remote, so shuffled the values of respective districts as to render them incapable of comparison with anything previously known.

These changes, among others, will have forced themselves upon the observer's notice—to the accompaniment of embarrassing legislation, such as Rent Restrictions Acts, Housing Acts, and Finance Acts, of heavy taxation at home and world-wide

---

This address was given at a Meeting of the Leicester, Northants, and Rutland Branch of the Chartered Surveyors' Institution on November 3rd, 1932.

At the moment the pendulum seems to be swinging definitely toward some form of nationalism. It may swing back—it always does, sooner or later. In the meantime perhaps there is something we can learn from our neighbors across the way.

We are indebted to Mr. Maurice F. Reidy, M. A. I., our delegate to the Fifth Congress of the International Federation of Surveyors held in London on July 18, 1934, for sending us a copy of this most interesting and, in many respects, remarkable address. Mr. Head's masterly presentation of the basic, underlying economics, and his logical resume of the factors controlling valuation, together with the statistical data supporting his conclusions, make this an outstanding contribution to appraisal thought and practice. Many of the points discussed may be equally applicable to our own situation.—Ed.

economic convulsions abroad. What wonder that the valuer feels perplexed? In observing, for instance, the price commanded by any given property, does he not feel, under present conditions, that the price is a more or less haphazard figure that is dependent on the temporary demand of a fortuitous purchaser, and that it provides but a treacherous basis on which to found a comparison for estimating the value of other properties?

In one case a price may be obtained which is unexpectedly high and cannot be repeated for similar properties elsewhere; another and more frequent state of things is to find it impossible to realise anything like the minimum figure of acknowledged value, while again it is often difficult to obtain purchasers at any price whatever. From such a state of things it is clear to the valuer that present-day prices are unreliable for comparison, and yet he can no longer rely upon his old standards.

BACK TO FUNDAMENTALS

Here, indeed, is the major cause of our present difficulty—the very standards themselves have disappeared; they have been submerged and swept away by the flood of changing conditions, a flood which, if somewhat abated, still remains of a magnitude which calls for very careful navigation. But since the old standards of value are gone, it is obvious that in these days the valuer must either (at the risk of inconsistency) act independently of any such guidance, or he must construct new standards applicable to the existing state of things.

It is to consider this alternative that I invite your attention today. We must ask ourselves the question whether, in the welter of changed conditions, there is any continuity of principle which explains the general fall in prices; whether in estimating future values we have to rely for guidance on those prices, confusing and haphazard as they appear, or whether the guides which have disappeared were only the conventional formulae in which the standards were expressed so that under all the apparent turmoil and inconsistency the fundamental standard will be found, temporarily obscured, it is true, but ready to emerge once more for our guidance and safety.

THE FIRST STEP

The first step in our investigation is to define what valuation is, and, probing more deeply, to learn what "value" is, how it arises, how it varies, and how it is expressed, and if in our search matters are dealt with which seem elementary, my excuse is that it is in those very elementary matters that the object of our search lies hidden.

First, then, valuation is the estimate of the capital sum which property should realise if sold under the conditions expected to exist at the time of the contemplated sale. This valuation is an estimate of the psychological condition of any person desiring to possess the property, the amount which such a person would pay being called "the value." Now, the value of any commodity may be defined as that amount of money which can be obtained for it from any person able and willing to purchase the same.

Value is not a quality attaching to a substance, as, for instance, weight or colour—it is something quite outside, and is dependent primarily upon the desirability of that substance to some person able to pay for his fancy; in short, to parody a well-known line, "Value is in the eye of the 'beholder.'" Other factors go to the making up of value, such as:—

The relation of supply and demand,
The state of the money market, and
Ability to pay.

We assume for our present purpose that all three operate favourably for the purchaser.

THE FIRST POINT

The important thing for the moment, however, and the one which we will emphasize as our first point is *that value is not inherent in the subject to be valued but is dependent upon external factors, particularly upon the desire to acquire it, existing in the mind of some person other than the owner.* Nevertheless, the value of land and house property is not so variable a thing as it would be if it were a matter of caprice or of a desire on the part of a few people here and there.

The land with its buildings is a necessity of our life and of every civilised community. From it is derived every commodity which is pressed into the service of the race, so that its possession, in one form or another, becomes a prominent feature in the economic conditions of every people. The ownership of land, with its derivative interests, therefore forms a part of the general resources of the nation, and is subject to the economic and financial laws which operate throughout the community. It has now come to be looked at in the same light as other commodities which can be bought and sold, and the income arising therefrom is regarded as is that proceeding from any other investment.

Its value rests no longer on the variable personality of the individual purchaser, but on the broader base of its general necessity to the community as a whole. It constitutes one of the recognised subjects of national trade and exchange, with the result that a more or less stable price is quoted, varying with the universally operating factors of supply and demand.

THE SECOND POINT

We arrive, therefore, at our second point, viz., *that land being a subject of universal demand, its value is not dependent upon individuals, but rests on a much wider basis, being standardised by current financial quotations.*

In order to estimate the value of property, one must endeavour to picture to one's-self the way in which the average purchaser regards the property offered to him. It will be found that, with a few exceptions, he estimates its value according to its power of producing income, *i.e.*, as an investment, and according to the safety of that investment.

There has grown up by common consent in the course of years a sort of graduated scale, allocating to the various forms of land ownership a rate of interest appropriate to the particular form of ownership, and varying with the safety or hazard of the particular investment.

Now, there is little doubt that in so doing the hypothetical purchaser has consciously or unconsciously set up in his mind a standard which we may call "The Ideal Security."

This is a security of which the capital is safe and easily realised, and of which the income is safe and easily collected. From such an ideal security the hypothetical purchaser is willing to accept interest at the lowest possible rate because of its manifest advantages, and he requires from other investments interest at a rate increasing precisely as they depart from the ideal security in the qualities of safety of capital and interest.

That the different rates of interest do vary on the principle of greater or less safety will not be disputed, and it is sub-

mitted that this phenomenon of graduation postulates for its standard the notion of the ideal security. Before going further, let me admit that I know of no security possessing in full measure the qualities attributed to the ideal security, but on the whole the Government Funds come nearest to doing so. In these cases the income is guaranteed and paid punctually without application.

The capital is absolutely liquid, but, on the other hand, it is variable, being influenced by political and financial movements. In the nature of things, however, this is the case with every investment, so that our ideal security must remain an ideal only, useful as a standard to be aimed at but not attainable in reality. For our purpose the Government Funds serve very well as the nearest approximation, and we therefore adopt them as our standard, particularly as they furnish a barometer sensitive to every movement of the political and economic atmosphere.

Basic Comparisons

Now, let us make our comparison between this standard of Government Funds and a few of the more prominent classes of landed investments.

Freehold Ground Rents present an income which is quite stable and easily collected. The capital value is well secured; indeed, it increases rather than diminishes with the passage of time, but the security is not "liquid," and some expense attends its purchase and realisation.

The best ground rents rank, therefore, somewhat lower than Government securities in price.

Leasehold Ground Rents come next—they are safe and easily recoverable as to income, but there being no reversion they diminish in value as time goes on. There is also the liability under the lease for repairs, and although the sublease frequently contains an express indemnity against this, there is always the risk of failure on the part of the sub-lessee. Leasehold ground rents are therefore less free from risk and trouble than freehold ground rents, and demand a higher rate of interest.

Freehold Rack Rents have the advantage of being perpetual and of being free from the restrictions which attach to a lease, but by being exposed to the risk of nonpayment of rent by the tenant they are more hazardous than ground rents and require a still higher rate of interest.

Leasehold Rack Rents suffer under the restriction and limited term of the lease, and accordingly are expected to pay a yet higher rate.

The rate of interest rises higher still in respect of properties constructed for a special purpose and which are therefore subject to a material risk of loss if that special purpose fails.

Trade Earnings

Finally, the maximum rate of interest is required in the purchase of incomes arising out of trade earnings. The latter, however, do not normally proceed out of landed property in the sense in which we use the term, and are mentioned merely to illustrate the fact that the purchase price of all incomes varies directly with the extent of hazard and trouble attached thereto.

In all these instances it is assumed that the investments are good of their kind—the inferior sorts requiring still higher interest according to the circumstances of each case.

Now let us take such instances of prices as we may have at hand, embodying them for the purpose of comparison in a table or scale.

TABLE I

Showing Approximate Rates of Interest Applicable to Landed Securities in London and District, in Pre-War and Post-War Periods Respectively

	Pre-War Per cent.	Post-War up to July, 1932 Per cent.
Government Funds	3½ to 4	5
Freehold Ground Rents	3½ to 4	5
Leasehold Ground Rents	4½ to 5	5½ to 6
Freehold Rack Rents—Shop and Dwelling-houses	5 to 6	6 to 7
Leasehold Rack Rents—Shops and Dwelling-houses	6 to 8	7 to 9
Weeklies—Freehold	8 to 9	8 to 9
Weeklies—Leasehold	9 to 10	9 to 10

TABLE II

A Comparison Between the Rates of Interest Paid by Government Securities and by Ground Rents.

Year	Consols		5 per cent. War Stock		Yearly Average on Ground Rent Investments
	Average Price	Equiv. Rate	Average Price	Equiv. Rate	
		Per cent.		Per cent.	Per cent.
1895 Av.	106	2.6			
1898 Av.	110	2.5			3.5
1900 Av.	100	2.75			3.9
1902 (2¾) Av.	95	2.8			3.8
1905 Av.	89	2.8			4.0
1910 (2½) Av.	81	3.1			4.5
1914 June	74¾	3.4			5.0
1915 June	65 13/16	3.8			5.0
1916 June	59½	4.2			5.5
1917 June	54¾	4.5	94 15/32	5.2	5.4
1918 June	56⅛	4.4	94⅛	5.3	5.5
1919 June	54	4.6	93 29/32	5.3	5.9
1920 June	47¼	5.2	85 5/16	5.8	5.7
1921 June	46¼	5.4	87 25/32	5.7	5.6
1922 June	55⅛	4.5	99 9/16	5.0	5.0
1923 June	59	4.2	101 15/64	4.9	5.0
1924 June			100¾	4.9	5.1
1925 June			101	4.9	5.0
1926 June			100½	4.9	4.8
1927 June			101½	4.9	4.9
1928 June			102	4.9	4.9
1929 June			101 5/16	4.9	4.8
1930 June			102 13/16	4.8	4.8
1931 June			97⅝	5.1	4.9

Table II shows a marked similarity between the changes of Government Funds and those of freehold ground rents. For instance, from 1898-1917 the Government Funds represented by Consols rose from 2.5 per cent to 4-5 per cent, an increase of 2 per cent, while during the same period freehold ground rents rose from 3.5 per cent to 5.4 per cent, an increase of 1.9 per cent.

From 1917 onwards until June, 1932, the Government Funds have been represented by War Loan, and the rate of interest has kept as close as possible to that of freehold ground rents, *i.e.*, War Loan varying between 4.9 and 5.1 per cent and freehold ground rents between 5.1 and 4.9 per cent.

The lines on a graph of Government Funds and freehold ground rents between 1898 and 1917 are roughly parallel, though separated by an average of 1½ per cent, and between 1917 and 1932 the lines practically coincide. The minimum periods were the same, viz., 1898. The maximum periods closely followed one another in 1919-1920. Further, prior to the War, Consols were required to pay only 3.4 per cent. When the War Loan started in 1917 it immediately paid 5.4 per cent, an upwards jump of 2 per cent. This was due, of course, to the War risks and to the diminution of safety which these Government Funds possessed; in other words, to their movement away from the ideal security. Thus even the premier national securities are subject to the operation of the principle set out in this paper.

During the period following the War the War Loan has paid about 5 per cent, and ground rents have sold at about the same figure. When the War Loan was converted to a basis of 3½ per cent, immediately the price of ground rents rose to 22½ and 23 years' purchase, corresponding with interest at the rate of approximately 4½ per cent.

These correspondences are sufficiently close to warrant the connection I have suggested between land values and the ideal security, or its nearest neighbour, the Government Funds.

After all, there is nothing unreasonable about such a correspondence. If an in-

vestor could get 5 per cent for his money from War Loan, it was not to be expected that he would be content with less from ground rents.

It is not suggested that these movements are simultaneous and that a change in the price of Government Funds is followed at once by a similar change in land values. The latter move much more slowly, steep fluctuations are avoided, and the changes are spread over longer periods; but, nevertheless, their movements broadly correspond with the movements of Government securities.

The Third Point

The third point to be emphasised, therefore, is that land and property values vary in relation to each other and to a hypothetical ideal security directly as they approach or recede from the qualities of that ideal security, forming in so doing a scale of comparative values. Also that this scale shifts up and down broadly in accordance with the movement of the price of the ideal security or its nearest representative, the Government Funds.

There are other classes of property not included in our comparative scale, but which, nevertheless, fall within the operation of our rule, *e.g.*:—

Accommodation Land,
Agricultural Land, and
Estates and Dwelling-houses with possession.

They have from time to time exhibited the phenomenon of being accepted at rates of interest lower than that paid by our premier security.

They have been omitted from the comparative scale for the reason that in all three cases there may be present elements foreign to those which characterise pure investments—elements of special importance which add value in the eyes of the purchaser and consequently diminish the rate of interest he is willing to accept.

Take accommodation land—this is the name given to land passing from the state of agricultural land to one commanding a higher rent for some special purpose, and frequently being on the way to becoming building land. Now, if the latter is the case, its future value is materially reflected in a higher selling price.

Agricultural Land

As to agricultural land, the number of years' purchase was at one time high with regard to the rental income produced, as much as thirty years' purchase being the ruling price. Now the value has woefully fallen, it being difficult to obtain more than 18 or 20 years' purchase even if purchasers can be found at all.

When we look at the reason for this decline in value we find that it consists primarily in the unsatisfactory state of present-day farming and the low price obtained for produce of the land and for stock—that is to say, in the increased hazard of the occupation out of which the rental arises. At one time, also, prices ruled high on account of the territorial dignity which attached to the ownership of land and to the sporting rights which were associated therewith. At the present time it almost seems as if the ownership of land carried with it obloquy instead of dignity, and sport rights have been curtailed. Thus, agricultural land is a notable example of the influence of increased hazard, among other reasons, upon its saleable value.

In the case of country estates also, there existed an element of value in the social position locally attaching to the ownership of land; this was a very potent factor which was not present in investments and for which allowance had to be made.

The importance of this and kindred factors which are associated with possession was noticeable in the extraordinary disparity between the rental and the capital values of country mansions.

It was no uncommon thing to find that the rent obtainable for a country mansion did not equal 1 per cent of the price for which the property would sell.

A man would buy for his own occupation at a price out of all proportion to the rent he would pay, or which he could obtain from another. This phenomenon is somewhat puzzling until one recollects that a man who cheerfully pays £10,000 for a valuable picture to hang on the walls of his home and who is content to lose thereby some £500 a year in interest on his purchase money, would probably be quite unwilling to hire the picture at a rent of £500 a year. It is the joy of possession which makes the purchase worth while; and so it was with the estate, although it was not accompanied with the appropriate rate of interest in the form of rental value.

Alas! in the case of country estates also the glory is departed, and the fate of the mansion seems to lie between disuse and occupation as a school or institution. Hazard is here present in its maximum degree.

Hazard Is the Key to the Problem

It is indeed upon "hazard" that we must fix our attention, as set out in our third point of definition.

We have established the fact that *land values vary in relation to each other and to a hypothetical ideal security as they approach and recede from the qualities of that ideal security.*

In other words, the value of a property varies directly with the hazard of its income. "Hazard," therefore, is the quality which we have above all things to assess. In most cases it is the principal thing to be estimated; it is the only unknown quantity in the equation, all the others being either supplied or within the power of the valuer to ascertain definitely. It will be found that increased hazard was the effective cause of the fall in the price of landed securities, the enlarged rate of interest being brought about by the War and other causes, both inside and outside our own country. Legislation, economic disturbances, changes in the incidence of demand, all played their part, but their effect was displayed in raising the hazard of incomes derived from landed properties and in the consequent lowering of capital values. During the period between the War and the present time the prices of ground rents and Consols maintained their correspondence; and immediately the rate of interest on War Loan fell, the price of ground rents increased accordingly.

On the other hand, shortage of accommodation maintained the pre-War prices of weekly property, and the element of possession enabled owners to obtain high prices, where that advantage could be offered. In both cases the general increase of hazard was counteracted by active demand. Thus hazard having been the constant and enduring basis of valuation in the past and having held good even during such a phenomenal period as that of the War, it must still endure, shaping itself to new factors as they arise.

Valuation under modern conditions should therefore still have as its ultimate basis, hazard—the valuer's task being to estimate its incidence, extent, and variation. Of course there are events which a valuer cannot be expected to foresee, such as the War, but, excluding so overwhelming a catastrophe, there are factors enough in the world of today to engage the valuer's judgment to the utmost.

Excessive Rent

Let us mention some—not by any means a comprehensive list—but a few instances which occur within my own limited sphere—every practitioner being cognisant of those things which are special to his own class of property. Take the case of *excessive rent.* It is not a rare thing to find a rent paid for premises in excess of real market rent, whatever may be the reason, whether pressure of circumstances, fitness for the requirements of a particular firm, or any other special feature. Here, again, hazard is present in an acute form—the security for the excess above market rent is very poor, amounting to little more than the note of hand of the tenant. The high rents paid in picked thoroughfares and those frequently paid by multiple firms are not above suspicion in this respect.

Two or three instances within my own practice may serve to illustrate the point. In one of the premier thoroughfares of London it is obvious that the rents reserved by the leases are materially higher than the real market rents even in so fine a position. It may seem strange to make such an assertion in face of the fact that the lessees of the premises throughout the street have actually contracted to pay the amounts specified. Yet such is the fact, brought about by the converging influence of conditions existing when the thoroughfare was rebuilt a few years ago. The desire to preserve an old-established business, the glamour of the address, the pressure of the landlord estate, and the advertising value of the thoroughfare, all operated towards the arrangement, but the net result was that the rents were too high, being only partly secured on the property, the payment of the remainder depending upon successful trading—that is to say, upon the profits of the business. Here it was necessary to analyse the figures and divide the rent into two parts, multiplying the one upon the customary table appropriate to good leasehold rack rents, and the other on that applicable to trade profits.

The other case to which I refer was more easy of application. Here a factory was let to a good firm at £600 per annum, while the rents prevailing in the district showed that the true rental was £400. In this case a course similar to that set out above was adopted, and the resulting figures were accepted by the Inland Revenue Office for Estate Duty.

Special Trades

A further instance, where meticulous care is required, is that in which premises are let for special trades. Most of us have known of well-built factories rendered almost valueless by a change in the method of manufacture. Trades have before now been revolutionised by some invention employing machinery which required additional space. The result of such an occurrence is that the factory must be extended, or new and suitable accommodation found elsewhere. Meanwhile the value of the old factory will have become seriously diminished or even destroyed. Again, take the garage and filling stations which are springing up everywhere, or take the cinemas, or, indeed, a host of other properties; they may vary largely in nature, but if the rental obtained therefrom is dependent on the exercise of their special trade and if the premises are fitted for that special purpose alone, then beware! The rental paid may be perfectly fair and reasonable for the particular trade, but it contains an element of risk at least equal to that of the business itself. Its hazard must be estimated, and the property valued accordingly.

A further instance of excessive rentals is presented by residential flats. A few years ago it was the fashion, in London particularly, to erect blocks of flats of very high rentals, many of which could only be described as "luxury flats." The rentals amounted in some cases to £1,000 per annum or even more, while a very large number were rented at over £500 per annum. Obviously the number of people capable of paying these rents is limited, and the result has been that many of the suites have remained empty owing to the inability to find tenants, while in other cases rents obtained in the first instance have had to be lowered considerably. The fact is that although the demand for flats, *per se,* has not diminished, that for the larger accommodation is becoming seriously less; indeed, such is the demand for compactness that just now the only suites in regard to which there is any certainty of finding tenants are those in the region of £200 per annum or below.

Thus, in valuing blocks of mansion flats, rents must be severely scrutinised, not only because the rents in themselves may be too high, but because the mere extent of accommodation may be a drawback instead of an advantage.

DEMAND

Then we have the *filling up of demand.* This factor is nearly related to the last, since the high rents paid for shops, both urban and suburban, arise from the expansion of demand for shopping premises. The appropriate proportion of shops to houses is limited, and careful examination is required to decide whether the present rents can be maintained.

As to dwelling-houses, the post-war expansion of demand has produced an astonishing number of purchasers, but there are unmisakable signs that the demand is nearly filled. Directly this takes place competition of new houses with old must ensue, with a probable lowering of value. The writing is already on the wall.

The satisfaction of the demand will also have its effect upon the older type of house as well as upon those which have been newly erected. It will be remembered that previous to the War there were many houses of the larger type which were very difficult to deal with. Some of them remained empty for long periods, but when the War came they were absorbed. Although too large for single occupation, they were divided into maisonnettes and were let at remunerative rents. As the houses of this type were the last to be absorbed by the increased demand, so, as the demand diminishes, they will be the first to feel the effect. Already it has been found that the rents of these maisonnettes have declined in some instances as much as 50 per cent.

LEGISLATION

Legislation is often a matter of serious consideration. Do not let us forget that there is a Land Values Act actually on the Statute Book, although its operation is suspended. There are also others of which the shadows fall across the road the landowner has to travel. They must be allowed for, their very existence increases hazard and will probably prevent ground rents from recovering their pristine position. Nor will the depreciation be limited to ground rents alone, any influence affecting the premier landed security may well filter through to all the classes of property associated with the land, and, by diminishing their desirability in the eyes of the investing public, impair their saleable value. The continuance of the Rent Restrictions Act creates a perplexing position owing to the uncertainty as to when

the restriction will be removed and the rents allowed to assume their market price. In some places it will be found that, in valuing, the rents are taken on the ordinary tables at the restricted figure as if that were made permanent by the statute, with the result that a grave inconsistency is disclosed between the value of the restricted property and that of neighbouring properties of equal accommodation. It would appear more reasonable to allow for a reversion to the full value at a time to be estimated for its restoration. The valuer is not without some guidance here. The Inter-Departmental Committee, appointed in 1930, recommended that the properties rated at £45 or over in London, and £35 or over in the provinces, should be freed, that decontrol should still be possible under the 1923 Act with regard to houses between £45 and £20 in London, and between £35 and £13 elsewhere, while those that are below those figures should cease to be subject to the decontrolling provisions of the Act. As this recommendation arose even under a Socialist Government, there should surely be some hope that a change may take place before long. In any case, the restricted rents, being at so low a figure, might fairly be treated as being excellently secured and valued accordingly. Meanwhile the building of new houses is slowly but surely reducing the shortage, so paving the way for the statutory change for which we look.

The value of building sites and building land is seriously affected by the Housing Acts and by the recent Town and Country Planning Act. Under the former, land in congested districts runs the risk of being included in what is called the "red area," and of being exposed to the destructive and disingenuous Section 46 of the 1930 Act.

Of the Town and Country Planning Act, 1932, it will be enough to remind the valuer that, by this statute, park land and agricultural land may be accused of having contracted the disease of "building value" owing to the vicinity of some alleged improvement scheme; that should this be the case the owner may have to pay 75 per cent of the improvement in value, as estimated by a servant of the persons who are to receive the tax, and that the payment may have to be made before any profit whatever is realised. Such a state of things is entirely beyond an owner's control, and although no actual loss may occur, the desire to own land is certainly not increased thereby.

THE GOLD STANDARD

The Departure from the Gold Standard will have its effect, but not altogether a depreciatory one. Land is an essential non-exportable commodity, and as such will require a greater number of pounds to purchase it. Under this influence, therefore, the nominal value of landed securities may even improve.

THE CONVERSION SCHEME

The Conversion Scheme, with the consequent lowering of rates of interest, will have a double effect, in opposite directions. On the one hand, it will stimulate mortgage loans and tend to send up the price of investments; but, on the other, it should reduce the cost of construction, and by promoting competition between new houses and those already built, bring down the cost of the latter.

TAXATION

High Taxation will lower the ability to pay and consequently tend to diminish rents, but conversely it makes for an increase in the price of ground rents, with

early reversion on account of the possibility in this form of investment of escaping income tax upon the sinking fund.

Here, then, are a few of the divergent influences upon which the valuer must exercise his judgment as to the hazard, additional or otherwise, imported by varying conditions.

To sum up finally our consideration of Valuation under Modern Conditions, we see that, in spite of the changes which have taken place in those conditions, the basic principles remain the same. Now, as ever, the valuer must apply the threefold touchstone—

Hazard as varied by political and economic factors,
The relation of demand to supply, and
Ability to pay.

Old standards having vanished, and current prices being untrustworthy, the primary object of the valuer's search must always be the hazard attending the particular property he has to value. He must take into consideration the effect which will be produced thereon by legislation, actual and projected, by the further factors mentioned in this paper and by other conditions which may present themselves as likely to affect the *hazard of the investment.* Having made up his mind upon this point, he should then fearlessly make his comparison between the property under consideration and the ideal security and apply the multiplier appropriate thereto.

The task is not an easy one, but it must be faced, with the knowledge that at no previous time has the valuer's responsibility been so heavy as it is at present. Especially will he realise this when dealing with mortgage securities. Here, the long view must be taken and careful consideration given not only to existing conditions, but also to those which can be reasonably anticipated. No man can do more than exercise his judgment, but, in assuming the responsibility for valuation, the valuer is advised for the safety of his own position to suggest in his report a periodical revision, and especially to recount the various considerations which have influenced him. By making his client a sharer in the sequence of his thoughts, he not only makes it clear that he has given a duly considered opinion, which is the extent of his liability, but also enables his client to exercise his own judgment upon contingencies capable of general estimation.

The Administrative "Joker" in the Federal Securities Act

By K. LEE HYDER, M. A. I.

The essential function of the appraisal and the reports of engineers and "other experts" in the determination of property facts is basically recognized in the wording of the Federal Securities Act of 1933. The Securities and Exchange Commission, empowered to administer the Act, has failed, however, to provide properly for such requirements in the promulgation of its rules and regulations. This must inevitably destroy the effectiveness of the legislation without any compensatory lowering of the barriers that are blocking public financing.

FOLLOWING many months of procrastination, the Securities and Exchange Commission has at last come out with a revised form of Registration Statement (approved as of January 12, 1935). This is entitled "Form A-2 for Corporations." To anyone who hasn't studied the Act and followed the lethargic tactics pursued to date in its administration—this means very little. To the initiated—it appears to be just a further muddying of the waters.

For the moment we are concerned primarily with the *Registration Statement*, that is, with the administrative phases rather than with the legislation itself. A great deal might be said upon the fallacies of the Act—but that is a longer story and can be no more than casually mentioned in this discussion. As a nation we contracted a virulent and contagious disease during the Post War period—an "epidemic", if you wish, of speculation that brought with it over-expansion, over-capitalization, over-financing, and all of the usual ills of an inflation era. The Securities Act was rushed through by Congress in 1933 along with other unstudied emergency legislation sponsored by the new Administration. It was propounded as an inoculative measure which would discourage for all time excessive and poorly conceived public financing. It was to "close the door" against future issues of spurious securities, at least upon their sale and distribution in interstate commerce or through the mails.

We are going to assume that the legislation was necessary; that it was, in the main, sound. Briefly and in simple language the Act provided substantially for the following:

1. The filing of a "Registration Statement" with the Federal Government concerning all issues of securities to be sold to the public and distributed in interstate commerce or through the mails.
2. The fixing of direct monetary responsibility for any subsequent decline in the value of the securities upon those who underwrote, sold, or otherwise disposed of them to the public, including all who may have taken any part in the preparation of the Registration Statement—provided that:
   A. The Registration Statement failed to state a "material fact."
   B. The Registration Statement contained an "untrue or misleading" statement.

Under this plan, of course, the Government itself assumed no responsibility—the administering agency was to be in effect nothing more than a "registry-of-deeds." The Registration Statement would simply be placed in the archives until something happened. Then it wold be brought out, dusted off, and used in the process of chastisement of those responsible for its preparation and presumably for the failure of the securities.

It is most important that this basic point be understood if one is to get down to the "meat" of the present situation. *There is no attempt to set up proper standards for sound financing, but simply a provision for punishment if the securities depreciate.* The obvious expectancy was a cessation of all public financing, refunding or otherwise. This is exactly what has happened. Who can say that a seemingly unimportant detail at the date of issue might not attain the stature of a "material fact" upon the day of judgment? To what extremes must a Statement be prepared in order that it cannot be construed to be "misleading" to the usual bond buyer.

The investment banker had been trying to work out those very essentials for years —with little success. The value of all securities is largely a matter of "futures"; at best the past and the conditions of the moment are only a guide to judgment. The apparent degree of relative future safety of principal so invested is what gives rise to variations in interest rates and in the prices at which the securities can be marketed. A bond, backed by a first lien on a large and substantial property which is being profitably operated by experienced management and carrying a low rate of interest, can be sold at or close to its face or "par" value. A share of preference stock in a speculative and unstable enterprise must carry a speculative rate or be offered at a price proportionately below its declared value.

The Act fails utterly to recognize this obvious distinction. The investor is, in theory at least, to be largely relieved of the burden of risk. A conservative investment or a gamble; a government bond or a share of mining stock; all are placed ultimately upon the same scales. They are to be weighed in the balance against a Registration Statement that makes no allowance for this basic risk factor. The "material fact" or the "misleading statement" cannot in the very nature of things be subject to such generalization—at least capital will not be inveigled into such a game of chance, excepting in the direst emergency.

THE REGISTRATION STATEMENT

The Act provided originally for administration by the Federal Trade Commission. With the bringing-in of the "trading-in-securities" phase in 1934, the broadened legislation created the "Securities and Exchange Commission" as the general administrative body. The personnel of this Commission appeared at the start to realize the underlying difficulties, and—among other things—has been proceeding in a tortuous manner with the announced intention of improving and clarifying the function of the Registration Statement. The new "Form A-2" is a disappointment. It neither strengthens the effectiveness of the Act nor simplifies its application. An apparent effort is being made to "ease up" on the restrictions for certain classes of securities which may be more obviously sound and "acceptable", but the hazards are still there—the threat remains.

Now in reality the Act gives wide discretion to the Commission. Should it elect to do so the Registration Statement can

be made a forceful and informative document. It is conceivable that the Commission might more or less control all securities issues to a very substantial extent. On the other hand it could be a most constructive force in an ultimate revision of the law if the flaws were studied and suggestions offered which would at once fulfill the purpose of the Act and pave the way for a resumption of public financing.

The power of the Commission, through the utilization of the Registration Statement, is set forth very clearly in Section 8 (b) of the Act, which provides:

> "If it appears to the Commission that a Registration Statement is on its face incomplete or inaccurate in any material respect, the Commission may . . . not later than ten days after the filing of the Registration Statement, issue an order prior to the effective date of the registration refusing to permit such statement to become effective until it has been amended. . . ."

Again in Section 8 (d) it is provided that:

> "If it appears to the Commission *at any time* that the Registration Statement includes any untrue statements of a material fact or *omits* to state any material fact required . . . or necessary to make the statements therein not misleading, the Commission may . . . after opportunity for hearing . . . issue a stop order suspending the effectiveness of the Registration Statement."

Now, obviously, the Registration Statement is the "marrow" of every future issue of securities. It is intended to be complete and informative; and, to meet all of the requirements, it would normally be a ponderous document. Among other things required are the balance sheets, profit and loss statements, and other accounting statements of the issuer of the securities. Under the act a burden is placed upon the issuer that these financial statements be capable at least of ready substantiation. While independent audits are not definitely specified in the Act for every case, the intent appears to be just that, and the "independent or certified public accountant" is stressed very heavily throughout, especially in the "Instructions" issued by the Commission and presumably based upon its interpretation.

WHAT OF THE APPRAISER?

The fact that the Act includes references to "appraisers and other experts," as well as to accountants, shows that they are expected to bear their part of the general responsibility. There was evidently no intent, at least none that can be noted in the phrasing of the Act, to stress or to define the function of the accountant to a greater degree than that of the engineer, appraiser, or "other expert." The Commission, through authority given in Section 19 (a), assumes full responsibility for the form and character of the Registration Statement as is evidenced from the following quotation from such Section:

> "The Commission shall have authority from time to time to make, amend, and rescind such rules and regulations as may be necessary to carry out the provisions of this title including rules and regulations . . . to prescribe the form or forms in which required information shall be set forth, the items or details to be shown in the balance sheet and earning statement . . . in the appraisal or valuation of assets and liabilities, in the determination of depreciation and depletion . . .".

In the "Forms" issued by the Commission, however, the "independent or certified public accountant" is given a prominent position, but the "appraiser" is passed by almost entirely. *Here is where the Joker lies.* No provision is made for appraisal or even certification of the existence of the fixed assets unless the books reflect "unrealized appreciation or write-down resulting from revaluations, reorganizations, mergers, or otherwise." If such adjustment has been made upon the basis of appraisal, the supporting details must be submitted; otherwise it appears to be immaterial whether the fixed assets

were acquired over a long period of years at low prices, or were purchased or constructed as a unit in 1920 or any other year of high prices.

This is clearly evidenced in connection with "Form A-2" where, under "Historical Cost Information," Item 45, it is stated:

> "Furnish the information required below as to the respective captions on the registrant's balance sheet, . . ."
>
> (a) If, since January 1, 1922, there have been any increases or decreases in *Investments*, in *Property, Plant* and *Equipment*, or in *Intangible Assets*, resulting from substantially revaluing such assets, state:
>
> (1) In what year or years such revaluations were made.
>
> (2) The amounts of such write-ups or write-downs, and the accounts affected including the contra entry or entries.
>
> (3) If in connection with such revaluations any adjustments were made in related reserve accounts, state the accounts and amounts with explanations.

Not a word here concerning *value*—nor even as to the *extent* of the *property* or its *condition*—just a transcript of the book records unless it should appear that there had been a write-up or write-down subsequent to January 1, 1922. This is the most vulnerable point in the entire Act—or at least in its administration. Even during the wildest days of "high" financing a definite showing was required, certainly as to the existence and condition—and usually as to the value of the assets forming the fixed security behind the issue. The State Security Commissions have long considered this an absolute necessity.

A Registration Statement without a substantiation and valuation of the fixed assets is like a "bob-tailed flush" in a game of draw poker, of which the "Old Timer" in explaining the fine points and values of the hands to the young novice, said: "it's jest plain wuthless." *No valuation of the fixed assets and no determination of the accuracy of the depreciation reserve as related to the actual condition of the assets are required.* And yet the Act provides that no "material fact" shall be omitted! What is a "material fact"? Is the actual value of the property being offered as collateral *not material?* Or, if the *book costs* are accepted, are we to be satisfied with the assumption that such property actually exists because it is recorded on a set of books? Or that it is in the *condition* indicated by deducting from the recorded cost the *book reserve for depreciation?* It just doesn't make sense.

It is entirely illogical to require, on the one hand, the submitting of details where an appraisal has been made the basis of an adjustment of the fixed assets; and, on the other hand, to ignore entirely the question of value—if only the *actual costs* are recorded. Certainly no thinking man would loan money directly on a property if he hadn't satisfied himself first as to its existence; secondly, as to its condition; and finally, as to its reasonable value. By the same reasoning he wouldn't obligate himself for a portion of a loan by buying a bond without the same assurance—not if he realized what he was doing.

The incongruous part of all this has been the attitude of the Commission toward some of the few appraisals submitted to date in support of proposed financing programs. Elaborate studies have been made of certain appraisals, the engineers of the Commission going right to the property for the facts. This shows that these engineers realize in principle that the appraisal is a necessity. *It is too bad that the members of the Commission apparently do not possess the same measure of practical knowledge and judgment.*

It is unfortunate, of course, that some of these initial appraisals have failed to stand up under the investigation, and in

all fairness the Commission is to be congratulated upon the frank and straightforward manner in which it has issued and explained "stop orders" in some of these instances. The fault, however, has been with the character of the appraisals and not with their desirability. It is submitted that these examples of inaccurately presenting property facts simply tend to support the necessity for a properly prepared report in every instance. *There is far more chance of basic error in unsubstantiated book figures, since these are not susceptible to any check whatsoever.*

THE COMMISSION'S OPPORTUNITY

No one wants a return of the "high financing" era. The obvious and common sense thing to do would be to strengthen the Registration Statement to the point where all basic "material facts" would be designated, and the opportunity for presenting "misleading" information blocked. Then eliminate the financial responsibility, excepting for clearly proven fraud. The investor would and should thereafter assume the relative degree of risk as compared to his potentiality for returns—just as all capital does when it is placed in industrial or other enterprises.

The Securities and Exchange Commission could easily and readily bring this about by the intelligent use of its present powers. Given a sound, simple, and complete form for registration for each class of securities, the desired protection for the investor would be automatically provided. Following this, the essential amendment of the Act to change it from a wholly destructive force to one of sound constructive nature in public financing could be undertaken with some prospects for success.

Actual independent appraisals might not be essential in every case, but an inspection and analysis of the fixed property is imperative. Certainly we want no return to the days of 1929 when we followed the "will-of-the-wisp" of *earnings,* without regard to producing facilities and values.

Depreciation is involved in the accounting statements in two sections: first, in the balance sheets as reflected in the depreciation reserve; and secondly, as an expense item in the profit and loss account. In neither instance should these figures be accepted as correct without an inspection of the property and a determination of its condition. It is the appraiser's function to determine accrued depreciation. Productive capacity, property deterioration, and obsolescence are matters of engineering determination—not of accounting. Depreciation expense, as reflected on the profit and loss account, can be accurately computed only in terms of property consumption and not by arbitrary accounting rates. The investor is more concerned with a guarantee for the continuity of the property, and thus its operating potentialities, than he is with the historical retirement of some prior recorded cost. It is today's and tomorrow's property dollars that are significant—not those of a former economic level.

It is inconceivable that those in whom the administration of the Securities Act is vested are not cognizant, to a more or less degree, of the "loop-holes" which now exist. These are self evident. Why, then, is not some action taken?

WHAT OF THE ACCOUNTANT?

The accountants were very aggressive in the initial efforts toward the compilation of the forms designed for guidance in preparing the Registration Statement. That they have done a good job is evi-

denced when we consider the instructions as to the financial statements accompanying "Form A-2" wherein it is provided that:

> "The financial statements shall be accompanied by a certificate of an independent public or independent certified public accountant or accountants. This certificate . . . shall state clearly the opinion of the accountant or accountants in respect of the financial statements of, and the accounting principles and procedures followed by the registrant . . .".

The accountant may well pause and consider just what are the proper "accounting principles and procedures" where public financing is contemplated. Before the passage of the Act the accountant was quite likely to recommend a reconciliation of the property facts with the books of account. Modern accounting practice virtually demands this in many instances. By the very excellent work he has done, therefore, in assisting the Commission in the compilation of forms and instructions, he has created a greater hazard for himself, and would probably willingly shift a little of the burden to the shoulders of the appraisers.

The scope of the accountant's responsibility and his essential limitations in reporting upon fixed assets were admirably presented in a recent address by Mr. Maurice E. Peloubet, Certified Public Accountant and member of the firm of Pogson, Peloubet and Company of New York. Mr. Peloubet's address was published in the March Journal of Accountancy under the caption, "Is Value an Accounting Concept"? He said in part:

> "Accounting, I think, must be objective . . . but when we try to enter fields which are entirely subjective in their nature, such as the determination and expression of values, we are trying to use an instrument designed primarily for recording observed, objective facts, to measure the effort and extent of changes in value which are based primarily on emotions and intellectual reactions. . . .
>
> "An accountant who attempts to make valuations other than those indicated by the accounts, or by some definite index . . . is coming dangerously close to the boundary of his own field and is preparing to step over into that of the economist and engineer. Valuation in any true or important sense is not a matter for the accountant and the more completely this is recognized by accountant and client, the better it will be for all concerned."

If the financial statements submitted by the "independent public or independent certified public accountant" are to fulfill the requirements by not failing to state a "material fact" or by including no "misleading" statement, then an appraisal report is in the great majority of cases an absolute necessity. Such a report is required to support the Fixed Asset Account furnishing evidence of the existence, desirability, and value of the property for its present or prospective utilization. It is needed in support of the Depreciation Reserve Account as evidence of the actual condition of the property and its remaining serviceability for use. Of almost greater importance, it is essential in support of the charges for depreciation, maintenance and other property charges in the Profit and Loss Statements. Without such support the accounting statements must be heavily qualified and are subject at best to gross misinterpretation.

CONCLUSION

It is high time this "Joker" be removed. It *can* be done. The Act should be clarified and revamped, but the first step toward this necessity would be taken if the proper place and function of the appraisal and the appraiser were defined. This apparently can be accomplished only by the aggressive effort of those within the profession combined with the various interests related directly or indirectly thereto and affected by the Act. Unless, and until, this is done the floodgates erected by the idealistically-conceived but poorly-drawn legislation will never be opened to release our impounded capital.

The Relation of Profit to Value

By George L. Schmutz, M.A.I., and Loring O. McCormick

PROFIT is any benefit or advantage accruing from the management, use, or sale of property, or from the carrying on of any process of production, or from the conduct of business.

In a looser sense, the word is also used to designate a gain of any kind in excess of what is put forth or expended. In an economic sense, Profit is that which remains of any Joint Product after the shares of Labor, Organization, Capital, and Land have been deducted therefrom. By way of illustration, if the Joint Product be 100 units, and the share paid to the productive factors be 97 units, then the Profit would be 3 units. This nature of Profit is the same whether we express it or measure it in terms of units of any description, or in terms of money. In a still stricter sense, Profit is merely the difference between the Joint Product and the shares of that Joint Product paid to the productive factors.

Profit Cannot Permanently Exist

Profit is eventually absorbed by increased consumption, thus disappearing; or else an unsaleable (valueless), surplus appears as the Profit. Thus, the ultimate nature of Profit must appear as an increase in the Standard of Living.

Profit is a share of the Organization factor in production, and is extremely complex in its nature. Briefly, it is the difference between income and expenses, and its nature is that of an overflow from the productivity of the productive factors, accruing to Organization for coordinating the other productive factors. Profit is the reward for enterprise, and is the incentive necessary for it.

In appraisals by the capitalization of net income, Profit has been oftentimes erroneously called "improved value," which most assuredly it is not.

The Instability of Profit

The Profit item is perhaps the most illusive matter in appraisal procedure. There are numerous reasons why this is so, but particularly because:

1. Land always tends to absorb Profit, and because
2. Excessive Profits breed ruinous competition, which ultimately destroys it.

For illustration, in a hypothetical apartment house district, the following situation may be found in the appraisal of a property:

	Appraisals	
	By Reproduction Cost	By Capitalization of Net Income
Land	$10,000	$30,000
Building	40,000	40,000
Total	$50,000	$70,000

In this capitalization appraisal, the land has been made residual, and the net income remaining after all expenses and charges have been deducted, has been imputed to the land and capitalized at, say 8%. In such cases, some appraisers would designate the $20,000 of excess capitalized value as "improved value," which assuredly it is not.

In the above case, let it be assumed that the "over-all" interest rate should be 8%, and that the net income to the property was $5,600 per year. Then, a capitalized appraisal set-up *should* be shown so as to isolate the Profit item, which is that sum of money earned in excess of 8% interest net on the costs of land and structure, as follows:

Net Income to Property	$5,600 year
Less Capital Charges of Structure	
8% on $40,000 cost	3,200 year
Net to Land and Profit (if any)	$2,400 year
Less Interest on Land Value	
8% on $10,000 cost	800
Net to Profit	$1,600 year

Inasmuch as any diminution in the gross income, and hence net income, will first lessen the Profit item before affecting any of the others, it follows that the Profit item is the least stable—or most hazardous of the items considered—and therefore, should be capitalized at a rate commensurate with the risk involved, say 25%, for example. Under such conditions, the value of the Profit item ($1,600) capitalized at 25%, would be $6,400 rather than $20,000 which was the value found by using an 8% rate as first shown. Thus, under the above assumptions, the following summary would be preferable:

	Appraisals	
	By Reproduction Cost	By Capitalization of Net Income
Land	$10,000	$10,000
Building	40,000	40,000
Profit	......	6,400
Total	$50,000	$56,400

Obviously, the reason for using the 25% rate for the capitalizing the Profit is because of its instability—because of its expected disappearance through absorption by the Land, or because of a lessened net income brought about by competition, or both.

If it were possible to buy lots for $10,000, and erect apartments thereon so as to earn all expenses, and capital charges of the structure, and leave a net income reflecting $30,000 of capitalized value for the land, it is obvious that such profits would attract large quantities of capital to this type of undertaking with the result that there would be considerable activity in which the demand price of lots would rise (above $10,000) and the increased competition of apartment space would cause a lowering of the rentals obtainable. Thus it is seen that, as the rentals come down—the capitalized value of the land comes down, and as the demand price of land increases,—it increases the charges of the land, thereby absorbing a portion of the Profit item. After several years, the adjustment may be responsible for the following conditions:—Net income reduced from $5,600 to $4,400, on account of competition, which would be shown as follows:

	Appraisals	
	By Reproduction Cost	By Capitalization of Net Income
Land (increased to)	$15,000	$15,000
Building	40,000	40,000
Profit	......	......
Total	$55,000	$55,000

In this case, the land has ultimately absorbed the Profit. It is also seen that the Profit item was extremely unstable, hazardous, and of doubtful continued existence. It is also seen that the Profit item could not be designated as "improved value."

The instability of the Profit item has been recently demonstrated in the history of miniature golf courses, and of large super-provision markets. At the commencement of these ventures, many of them were actually earning interest on twice their reproduction costs. Hence, a tremendous volume of new capital was attracted to this type of employment, with the inevitable result that *excessive* competition created *ruinous* competition, reduced the income level, dissipated the Profit item, and, in many cases, actually destroyed much of the invested capital.

These statements illustrate the fallacy of making a valuation by capitalization of net income without properly considering the nature and permanency of the Profit, if any. *A monetary profit cannot permanently exist.*

As a Stimulus to Industry

Under any capitalistic system, stimulus to industry is furnished by two factors:

1. Want or desire, on the one hand, and
2. Profit on the other.

If an entrepreneur can use the productive factors and pay them 97 units of the 100 units produced, he is thereby enabled to exact a Profit of 3, be they units of commodities, or of services, or of money. The entrepreneur can use this Profit to satisfy his own wants, or can use it as a factor in further production. However, if the entrepreneur received 100 units as the joint product, and had to pay the productive factors a like amount, there would be no Profit and, obviously, no incentive to create a joint product, or to use the productive factors. If 103 units had to be paid to the productive factors and only 100 units received for the joint product, a loss would be indicated. If the indications were for a continuance of such loss, the entrepreneur would cease the employment of the productive factors and, under such conditions, a portion of the total supply of finished commodities would be lessened, and the quantity of idle productive factors would be increased. The cessation of activity would therefore set forces in motion tending to lessen the cost of the productive factors, and at the same time, to increase the worth of the Joint Product.

It is also apparent that the larger the Profit existing, the greater would be the incentive to employ the productive factors, and the increased supply thus brought about would tend to increase the shares going to the productive factors, and particularly the share going to land. It has been previously pointed out that land tends to absorb the surplus of productivity above the costs of the other three productive factors, and Profit is obviously a surplus of productivity. For that reason, *Profit cannot long exist* before being absorbed by land, or diminished by competition.

If Profits are more than usual, business is stimulated, and both production and consumption increase; conversely, business is discouraged and production and consumption fall. In the practical economic World, Profit is probably the most necessary of the returns of the factors in production; and without it, the returns to the other factors tends to decrease. If Profit is diminished, enterprise follows; if Profit be increased, then business is stimulated; if Profit is destroyed, the forces upon which progress and expansion depends are destroyed with it.

Nature of Individual Profit

A person, firm, or corporation might make a Profit by spending less than they receive, or by consuming less than they produce. Under such conditions, by using money profits in further production one may amass command of large quantities of wealth. In this respect, individual Profit differs materially from National Profit,—the former being measured in terms of *money*, the latter in terms of increased *standard of living*.

Nature of National Profit

In the United States, during the past several decades, the tendency of wealth has been to increase at the rate of about 3.5% per year, compounded annually, and population at a much lesser rate. As a result of these two different rates of increase, the Standard of Living has been increasing at the rate of about 40% each decade, and this increase in the Standard of Living represents the Profit of the Nation, or "real" Profit.

Inasmuch as the increased Standard of Living arises from the increase in productiveness of the whole industrial and agricultural mechanism, we might also say

that the Profit of a Nation is expressed as well by the increase in the ability to produce and to consume safely.

Therefore, the Profit of a Nation is unlike that of an individual, and consists in the ability to increase the Standard of Living, and lessen the labor of its people, as a whole.

GENERALLY MEASURED IN TERMS OF MONEY

It is needless to state that Profits are generally expressed in terms of money and, under such conditions, if the National Profit were a per capita increase of 3.5% per year in Commodities, and an increase in money at a like rate, then money would be an accurate measure of profit. It has been previously pointed out that, over long periods of time, the supply of money and of commodities tend to increase at the same rate. However, at any moment in time, such as during the past fifteen years, the production of commodities might increase at a more rapid rate than money and its effectiveness; or as exemplified during the period 1896-1911, money and its effectiveness might increase at a more rapid rate than production. Under the former conditions, the tendency of the price level would be to fall, while under the latter, the tendency would be for the price level to rise. As economists increase the accuracy of measurement of the World's increases in money and its effectiveness, and of production, more accurate forecasts can be made as regards the trend of the price level. If over a period of time, production should increase at a rate of 3.5% per year, and money and its effectiveness should increase at a lesser rate, it is obvious that prices will fall. Conversely, if the increase in money and its effectiveness were 1% per year—over a long period of time, then only a 1% increase in monetary wealth would be possible, regardless of whether the increase in commodities or "real" profit were 3% or more.

This example clearly shows that monetary profit and real profit are separate and distinct things although there is a tendency, over long periods of time, for them to increase in like ratio. At any given moment of time, the appraiser should attempt to find out what are the relative rates of increase in order that he may estimate the probable trend of the price level.

To sum up, monetary profit for a nation is determined by the rate of increase of money, while real profit is represented by the per capita increase in production and consumption.

HOW CHANGES IN MONETARY PROFIT AFFECT REAL PROFIT

The three years (1929-1932) furnished a vivid example of how *monetary* profit affects *real* profit. The decline in monetary profit first made it impossible for the entrepreneur to operate at a money profit and, as a result, he had to curtail production. This curtailment of production increased the supply of labor and lessened the use of the production factors, Labor, Organization, Capital, and Land. This increase in the supply of the productive factors was accompanied by decreased production, and under such conditions, decreased consumption was inevitable. The whole process of decreasing production and consumption, and deflation, is to be construed merely as a shearing off by Land of the excess percentage of the joint product received by the other productive factors. When monetary profit again becomes possible, activity will be increased, production, consumption, and real profit likewise.

Studies of the past force upon us the conclusion that, when money is used as the common denominator, it becomes the means by which profit is gauged and,

strange as it may appear, *real* profit tends to rise and fall with money profit. During long periods of increasing prices, and increasing money profits, production and consumption increase at a somewhat more rapid rate than during a period of declining prices. When the downward movement of the price level is drastic, as in 1929-1932, production and consumption decrease at a very rapid rate and real profit might disappear entirely.

We now approach the crux of the situation. If real profit be largely dependent upon monetary profit, why could we not adjust our interest rates so that a monetary profit would always exist and thus keep real profit at its maximum? The whole answer is one which economic science cannot yet give.

In every day life, people agree upon the monetary worth of commodities, and debtors and creditors agree upon the rate of interest to be paid for the loan of capital. If, for the Nation as a whole, the rate of increase of wealth be 3.5% per year, and money at 2% per year, then only 2% per year could be paid in which event, over a long period of time, the creditor would absorb the real increase in wealth. However, if the debtors of the Nation had agreed to pay 3.5% a year, the creditors would absorb—not only the increase in the real wealth of the nation, but would exact from the debtor, *if the debt be paid*, a portion of what the debtor owned before borrowing. Under such conditions debtors would probably cease to borrow, thereby increasing the supply of loanable capital and ultimately reduce the interest rate so that both debtor and creditor would gain from the increase in real wealth.

These processes and adjustments are not rapid and automatic, nor does a slight change in the difference between the quantity of money and production introduce an immediate change in the price level, or in interest rates. When a loan is made, that which is pledged as security is appraised, and it is generally appraised by assuming that it will bring a price similar to prices received during the comparatively recent past. Under such conditions, credit may be extended at a much greater rate than the effective increase in the supply and effectiveness of monetary gold, and thus build up a condition of unbalance which will later manifest itself.

If the safe effective rate of increase of monetary gold were at the rate of 1% per year, and production at the rate of 3.5% per year, and if for a four year period in extending credit, property—real and personal—were valued at previous levels, then credit would probably be over-extended about 10.5%. Under such conditions, it would become apparent, by means of credit collections or the quantity of things which must be sold, that the price level was too high and debtors might be asked by creditors to liquidate a portion of the loan. The liquidation of these loans would bring about a downward movement of the price level, the disappearance of monetary Profit, curtailment of production, unemployment, decreasing purchasing power of people, a decrease in credit through inability to show a monetary Profit, and, ultimately, to a balancing of the factors in production at a lower price level, and a lessening in the interest rates.

This relationship between the quantity of monetary gold and its safe effectiveness, and the increase in production, constitutes the most baffling and, at the same time, the most necessary factor to be considered in appraisal procedure. The problem before valuators, appraisers, and the economists of the World is whether we shall extend our knowledge of this necessary subject and devise means of measurement, or as to whether we shall stumble along in the future as we have in the past—ignor-

ing the subject and trusting to luck and divine providence.

MONETARY PROFIT DEPENDS UPON STABILITY OF PRICE LEVEL

During a period of advancing prices, monetary Profit increases and the share imputable to organization as Profit increases rapidly. This increase of Profit—or return to organization, stimulates business activity and the expansion of creative facilities, and increases consumption as well. During the first stages of an increasing price level—labor, organization, and capital do not increase as rapidly as the price level, thus leaving a larger share of the Joint Product to organization as Profit. The creation of an additional demand for the productive factors brings about an increase in the demands of the productive factors and hence cost of them, which automatically tends to shear off Profit.

A rising price level ultimately destroys a monetary Profit by stimulating production beyond consumptive demand, and by increasing the monetary share of the Joint Product paid to the productive factors other than organization.

Conversely, during a period of falling prices, the first thing which disappears is Profit, and the second is the return to land or natural resources, which ultimately leads to unemployment and a reduction in production, consumption, and the Standard of Living. Inasmuch as Profits are measured in a monetary sense, the existence of a monetary Profit becomes essential to the maintenance of business activity and the Standard of Living.

During a falling price level, Profit might immediately disappear and the returns to the other productive factors greatly diminish and Profit can again reappear only when the returns to the productive factors are again allocated so that a surplus is left for organization.

It has been previously pointed out that —during a declining price level, the productive factors of labor, and organization, stubbornly resist a diminution in their money returns and under such conditions, they make the existence of a Profit impossible. This is well exemplified in the table below.

	All Governmental Expenditures (taxes)	Aggregate Income of Population	Percentage of Income for Taxes
1912	2 billions dollars	33 billions dollars	6.1%
1922	6.7 billions dollars	60 billions dollars	11.1%
1929	10.8 billions dollars	85 billions dollars	12.7%
1931	12.0 billions dollars	54 billions dollars	22.2%

This tabulation shows an increase in the percentage of national income received by all governments (Federal, State, and local) of from 6.1% in 1912 to 22.2% in 1931. This illustrates what has been said before regarding the stubbornness of labor and organization to resist cuts when they are warranted. The costs of government, which are increasing while the National Income is decreasing, merely creates additional imbalance amongst the productive factors. Thus are governmental labor and functions absorbing a greater share of the national income (joint product) than is warranted, and this share is obviously taken from the other factors in production. Under such conditions, *the government absorbs*—not only any possible *monetary Profit to industry*, but makes *additional demands* leading to a diminution of both

monetary and to actual value of property held by others.

Where a price drop has been so rapid and where governmental costs have not recessed as rapidly, and thus have destroyed the existence of Profit, conditions become such that unrest and discontent rear their heads, and mutterings are heard about the necessity for a new order of things. Defeat at the polls of those in power, demonstrations such as the bonus expeditionary force at Washington (1932), and taxpayers strikes are generally necessary to shear off the excess cost of government, which is one of the costs of organization.

It has been previously pointed out that—as the price level recedes, the tendency is for the factors of labor, organization, and capital to exact more than their just share of the Joint Product, and also to resist any reduction in the quantity of money paid them for the part they play in production. Under such conditions, the owner or employer of capital and land has no alternative, if he wishes to preserve his position, but to refuse to employ the productive factors. This refusal leads to an increase in unemployment, a reduction in consumption and production, and a very marked reduction in real wages of labor. By refusing to take cuts when warranted, and manifesting stubbornness in making the necessary adjustment, labor and organization appear as their own worst enemy. It is futile to argue that labor and organization should make these adjustments without the necessity of economic pressure, which brings misery and suffering in its wake, when a calm survey of the situation discloses that they always have resisted taking cuts when warranted. The fairest conclusion which can be arrived at is—if labor and organization displayed as much intelligence in demanding an increase in money wages when warranted, as they exhibit stubbornness in resisting the cut when economic conditions demand such a course, the World would be much better off.

From these considerations we cannot help but draw the conclusion that business activity, and the rate of production and consumption is dependent upon two things —(1) the stability of the price level and (2) the equilibrium between the productive factors, i. e., the receiving by each of a percentage of the joint product in proportion of their contribution, and to their supply costs. It also follows that anything which interferes with either the price level or the equilibrium of the production factors will, *ipso facto*, interfere with production, consumption, and the Standard of Living.

Profit is thus seen to be the *Alpha* and *Omega* of human activity under any capitalistic system, and the existence of profit is determined by many factors. Thus it behooves the appraiser to equip himself so as to be able to judge conditions leading to either an increase or to a decrease in profit.

♣ ♣ ♣

The Valuation of Land with Underlying Natural Resources

By PHILIP W. GROSSMAN

IN the abstract all land is a natural resource. We may go the whole way and state that every material thing developed and utilized for the comfort, health, and advancement of the human race has its inception in *land* as augmented by the harnessing and coordination of other natural resources. Our food, water, and clothing; our building material and the machinery for its manufacture; the means and the media by which we express and perpetuate our art and our literature; in short, the continuance of our very existence as well as our cultural development is dependent fundamentally upon the land and its products.

It is not intended in this discussion, however, to dwell at any length upon underlying concepts or basic economic principles. The appraiser, in approaching the investigation and valuation of land possessing sub-surface rights to the recovery of underlying natural resources, faces many problems, the solution of which may require that he possess specialized engineering training and experience, or be in a position to select and obtain such technical assistance. However simple the particular situation may appear, unusual perception and understanding of the principles and methods involved and adaptable to the valuation of natural resources are essential to any proper determination of value in lands of such character. Some of the more important and controlling principles and the usual methods adaptable to the valuation of natural resources are presented and discussed in a general way in the following, the technical phases being eliminated insofar as possible.

The value of all land is dependent primarily upon the nature and extent of its potential utilization. Where land is underlaid with a deposit of a desirable natural resource and the location is such as to develop no high utility for surface use only, then the value of the land may be reflected to a large extent in the *commercial* possibilities for exploitation of the natural resource. The mere presence of a desirable metallic or non-metallic deposit does not necessarily create value. It must first be removed, then processed, transported, and sold. Unless the entire operation results in a profit above all of the expenditures required in the development and marketing of the resource or its products, there is no *commercial* advantage and hence no value in the particular deposit.

It must be recognized, however, that many factors enter into the success of an enterprise. Clay bearing lands are valuable in the furnishing of raw materials ultimately utilized in the making of brick, tile, and various ceramic products. A *source* of clay must therefore be available to a concern engaged in making tile; and while it may be desirable, it is not essential that the manufacturing enterprise

---

Mr. Grossman has operated numerous mines and quarries in the United States and the Republic of Mexico and has been engaged in valuation work for over twenty years. For the last twelve years he has been a special representative of The American Appraisal Company, his activities for that organization having covered the inspection and valuation of all types of properties and particularly the economic and physical property problems incident to natural resource valuation. His extensive experience in this field has resulted in repeated appearances before Courts, State Commissions and federal regulatory bodies.—Ed.

own the land and the clay deposits appurtenant thereto. The clay may be purchased from others and the supply shipped in as required, or the rights to remove the clay may be secured under lease from the owners of the fee to the land without any change in the title to the land itself.

The profit, therefore, that may be ultimately realized from the recovery of a natural resource may be due in part only to the value of the land and resource. It may result partly or even primarily from the capital invested in the essential or related facilities and frequently is attributable more properly to the efforts and unusual ability of management. We are thus led immediately to the conclusion that, whereas the value of land underlaid with a natural resource is dependent in the final analysis upon the profits to be realized from its exploitation, these profits might result from many other factors and in themselves cannot be used directly in measuring the value of the land holding.

How then shall such value be determined? In general there are three basic methods, one or all of which might be applicable in a given instance. These methods are generally known as:

(1) The "Comparative" Method.
(2) The "Relief from Royalty" Method.
(3) The "Earnings Capacity" Method.

The application of the "Comparative" Method is not dissimilar from that frequently and perhaps usually adopted in determining the value of lands of general surface utility only. It is nothing more than the analyzing of the "valuation of the public," that is, the assembling and interpreting of data concerning the sales of similar lands. For example: sand and gravel, coal, clay, limestone, and other similar deposits of natural resources, occur over wide areas in many sections of the country. Where the area has been quite generally explored, the extent of the deposits is known in a broad way and the lands embraced in such areas gradually attain a "market value," that is, a recognized price at which they are bought and sold. This price may vary, of course, depending upon particular locational and physical factors as well as upon the "supply and demand" at the moment, but any holding is susceptible to appraisal by a *comparison* of its relative marketability with other lands which have been bought and sold.

It is obvious, of course, that this method has definite limitations. Where such comparisons are used the appraiser must carefully consider each sale and its degree of comparability. He may be called upon to exercise the best of geological, engineering, and economic training and experience. Consider, for example, certain lands of Eastern Kentucky. Vast areas here are underlaid with fluorspar (that most essential requisite of the steel industry), and in the years past great numbers of sales of these lands have taken place. But few appraisers of these natural resources gave proper consideration to the great variation in land values existing. The United States Geological Survey and geologists of prominence show that practically all of Eastern Kentucky is underlaid with fluorspar, but it is the natural resource appraiser's problem to differentiate between the general statement of fluorspar content as against that which can be classed as "commercial fluorspar." The natural resource appraiser in evaluating these lands must also conduct the necessary investigation to determine definitely and prove that the particular area with which he is dealing

is underlaid with what is known as "mineralized fluorspar," which in turn reflects a rather substantial value; where as in the absence of "mineralized fluorspar" the value is probably nothing more than a nominal sum for surface use.

This situation clearly demonstrates the hazard in the use of comparable sales and is not only true in the particular instance recited, but is prevalent throughout nation.

It is generally recognized that the cost of development of a natural resource property of any kind is not uniform but varies in accordance with the following:

1. The nature of its occurrence; its accessibility; and the conditions under which its exploitation is possible, that is, whether by surface operation, by outcrop or side hill entry, or by shaft, each condition involving a different cost of development.
2. The topographic features and indicated subsurface structures associated with its occurrence, which may in some instances be conducive to economical development costs and in others to higher cost.
3. The location in respect to existing facilities for transportation of the product to market involving the necessity for either long or short railroad sidings and the attendant varying cost of acquisition of the necessary rights of way and of construction.

When these three factors are considered it will be obvious that at the time of purchase or sale the price which the buyer might pay would be governed largely by the extent of the necessary cost of developing the land, regardless of what might have been paid for some other property with perhaps an equally desirable deposit.

"Relief from Royalty" Method

Frequently, in the case of widely occurring non-metallic mineral deposits, the ownership of the land is not desired by the capital engaging in its recovery. The land is leased from the owner under "royalty agreement," that is, at a consideration based upon the number of tons or other unit of measure applicable to the amount of the deposit which is removed. Usually this royalty is expressed as so much "per ton" and the rental paid for any year or period would be determined by applying the rate to the total tonnage removed.

It is obvious that under this plan the value of the property to the owner is reflected from the rental which he receives and is controlled to a large extent by the business prospects and program of production adopted by the lessee. Where such land is held in fee, therefore, one measure of its value would be in the determination of the saving represented to the owner in thus being relieved from acquiring the use of equally desirable land from others through the payment of prevailing royalties. This leads to the designation of the method as that of "Relief from Royalty."

While applicable in many instances, the method is not simple and its use involves the determination of many factors. Essentially for such a valuation we require first the fixing of the proper royalty rate. This necessitates the use of the "Comparative" Method in assembling and analyzing data upon the royalty rates paid under leases of similar properties. All considerations required in the application of "Sales" data are equally pertinent to this determination.

Having established the proper or prevailing "rate," the second primary factor is to determine the tonnage, that is, the number of units to be removed from the deposit over a defined period. If the appraisal involves the valuation of the land and deposits being currently exploited by a going concern, then the production record of the operating company afford a primary guide when taken in the light of future prospects. Where the de-

posits are undeveloped, however, the problem may well include a consideration of the entire range of economics affecting the related industry.

The third factor required for valuation is that relating to time and is defined by a survey to develop a reasonable estimate of the extent of the deposit. If the land is limited and the rate of production high, then the "life" of the deposit is short. On the other hand, it may be found that the deposits are of such depth or of such areas that the normal rate of recovery would not exhaust the entire resources for hundreds of years.

Each problem in this respect must be carefully considered. From a practical standpoint the "economic life" over which to project such a program would be controlling, such life being limited to the period over which capital could safely expect to invest in the facilities for development and anticipate an ultimate full utility from and return of its investment. Any lesser life expectancy would seriously discount the value; any greater life expectancy would add little monetary value as it would represent at best only the possible repetition of the same cycle of utilization.

The mechanics of valuation under this method are simple. The present worth of the indicated savings or "relief from royalty" over the estimated or economic life of the deposit, computed at a rate found to be consistent and reasonable for investments of similar risk, would represent the value of the deposits. The selection of the proper risk or capitalization rate is, of course, a study in itself, although not different in principle than any other appraisal made on a similar basis. If, in fact, the conditions, location, etc., should indicate a substantial residual value in the land only, after exhaustion of the deposits, then such remaining value —discounted to the date the land would be thus available—might be computed and added. Excepting in the most unusual instances such added value would be nominal.

As an example of this, the City of St. Louis is underlaid with commercially recoverable limestone used in an important way for construction activities. A depleted or partially depleted quarry site close in to the heart of this city may have substantial remaining value: first, as a site for the dumping and disposal of refuse, and secondly, for filling, grading, and adapting to surface utility and improvement. An actual instance of a "triple" utility was disclosed in an appraisal some years ago of a parcel of land situated virtually in the heart of the urban section of the City of Los Angeles. This was being first exploited as a sand and gravel deposit; secondly, used and paid for as a city dump; and finally, adapted to industrial improvement.

THE "EARNINGS CAPACITY" METHOD

This method is perhaps the most hazardous, but, paradoxically is the most generally applied. It contemplates the valuation of the land underlaid with deposits of whatever character upon the basis of the capitalization of the net earnings, of a completely developed and unified operation, that are considered to be properly attributed to the resource itself. In this connection it may be timely to quote the United States Supreme Court in the case of the C. C. C. & St. L. Railroad v. Backus (154 U. S. 439) as follows:

"The value of property results from the use to which it is put and varies with the profitableness of that use, present and prospective, actual and

anticipated. The amount and profitable character of such use determines the value."

In determining valuation on the basis of the earning capacity of any lands underlaid with a natural resource there immediately arises the necessity for a consideration of certain fundamental factors which must be thoroughly analyzed before any approach can be made to the ultimate value. These factors may be broadly enumerated as follows:

Nature and Character of Deposit: In the developed deposit of an operating going concern these factors are more or less immediately in evidence. For an undeveloped deposit, however, extensive research and investigation may be required to determine the general desirability, utility to industry, and actual chemical and physical character of the deposit itself.

Extent of Deposit: Again, in a developed deposit essential surveys may already be available, whereas in an undeveloped deposit test borings or other examinations must be projected to such degree as required for the reasonable defining of the quantities of the deposits in place of determined characteristics.

Location and Accessibility: This factor is of vital importance to commercial exploitation and relates, of course, to the nearness of markets and the means of transportation, which weigh heavily in the costs of production.

Cost of Development and Recovery: These factors are to be considered usually in two parts:

1. The first cost of opening and bringing the project to a point where profitable operation may be anticipated.
2. The regular and continuing costs of recovery following the completion of development.

Under (2), of course, are included directly or indirectly all factors influeucing the costs of labor, power, supplies, administration, taxes, insurance, and maintenance. There must also be included studies of investment, actual or required, and the interest and returns needed to support the same. These costs tie in closely with the marketing potentialities which control the rate of production and define the extent of the capital required to meet such demands.

Market: This embraces a consideration of: location of markets; consumers; quantities desired; freight rates charged; selling prices; and quantity and quality of product being supplied by competition, in short, such quantities as can be profitably produced and marketed.

In a broad way, that portion of the expected net earnings produced through the exploitation of a natural resource that may be assigned to the value of the deposits varies inversely in accordance with the relative scarcity and desirability of the resource. The value of a gold mine under profitable operation, for example, is very largely attributable to the body of ore which is being mined. The market is stable and definitely established. The value is dependent, of course, upon the amount by which the realization exceeds the costs required to mine the ore and transport it to the point of disposal. If the gold bearing vein disappears through a "fault" and cannot be relocated, then the value of the mine as an entirety, that is, the enterprise itself, is reduced to no more than the salvage value of the equipment.

A tile manufacturing concern, however, may be so located as to be able to continue with little loss after exhausting its natural clay resource by the simple expedient of acquiring adjacent clay lands or even by the shipping in of the raw materials. The recognition and interpretation of this proper relationship and the consequent allocation of the net profits to the deposit as distinguished from all other assets therefore becomes the most important factor in the valuation under the "earnings capacity" method.

Then the recovery of a natural resource is recognized to be subject to certain risks or hazards incident to all such operations. In the case of lands where the natural resource must be mined, recognition must be given to conditions imposed by nature, such as earth squeezing and folding, subsidence, changes in the physical nature of the roof, walls, and floors, underground water seepings, etc. In the case of open pit or quarry operations we have other hazards imposed by nature such as the degree of over-burden that must be re-

moved, the seepage of water, and the degree of foreign matter content that must be separated from the desired commercial product.

These hazards must be provided for in any determination of value of a natural resource by the use of a proper factor of safety, which can most appropriately and effectively be applied in the interest rate used for capitalization of the anticipated net earnings. Since the hazards are directly related to the recovery and processing of the natural resource, it is obvious that the net earnings of the deposit itself must be determined. The selection of the proper rate for capitalization is in itself a task which can only be equitably determined from intimate knowledge gained through long experience in the operation of the recovery of any natural resource. Too frequently we find that the total gross profits are capitalized to arrive at a value of the whole without proper consideration to the relative risk or influence attributable to the capital invested in development of the improvements. This distorts the final value assignable to the natural resource itself.

Any natural resource, therefore, whether metallic or non-metallic, mine or open pit operation—it makes no difference—is hazardous and swayed by the "God of Chance" to a greater or less degree. Good business demands that all the knowledge and control possible be applied to the gamble that underlies such operation and in turn directly affects the value that may be attributed to the resource. Only after a thorough investigation has been made, and the necessary analytical work completed to determine the extent of the advantages and hazards affecting these elements, can the facts be revealed and assembled into a workable plan of operation which is the first essential to the correct determination of the value of the lands under consideration.

The statement of anticipated earnings can then be compiled to show an expected net income allocable to the land and deposits which, when capitalized in accordance with standard practices, will result in the present fair value of the resource.

* * *

Percentage Leases

By C. J. PEARCE

ARE percentage leases equitable? The title of an article appearing in Southern California Business, "The Percentage Lease—Yes and No," is, perhaps as appropriate and emphatic as might be expected on such a highly specialized and scientific subject as percentage leases, a subject that requires exhaustive and scientific analysis. Are percentage leases equitable and fair to the landlord? Yes—and No!

In the face of certain fixed charges, such as taxes, insurance, operating expenses, interest, etc., to what extent should a landlord anticipate income by way of a percentage arrangement for the payment of rent? Certainly fixed charges are not on a percentage basis, and when property is acquired it is not contingent upon the success of the venture but rather the risk is undertaken solely by the purchaser of the property. Tenants seeking premises upon a percentage basis invariably remind you that they are willing to pay rental in accordance with the volume of business, which, in itself, is a perfectly frank and fair sounding statement, but the landlord has not the same opportunity in dealing with fixed charges, which go on just the same and are not conditional upon whether business is good or bad with tenants. Therein lies the risk for the landlord, while the tenant, under the percentage arrangement, is comparatively safe.

HISTORY AND CAUSES

It is said that the idea of percentage leases is not a new one. I am informed that the second percentage lease made was in the year 1908. Nevertheless, it is certain that the percentage lease idea has gained more momentum and has been more generally discussed during the past few years of depression than ever before. I have searched the minutes of the conventions of the National Association of Building Owners and Managers, for many years back, and if the question of percentage lease was then a vital one, it is quite surprising to note the lack of interest in the subject at the conventions during the years B. D. (Before Depression.)

The great interest manifest of late in this matter must, it would seem, be attributed to the fact that we have been in the midst of a tenants' market, that the real estate agent has been obliged to follow lines of least resistance in negotiating leases for the payment of commissions. I cannot believe that the percentage lease is advancement arising out of depression. Of course, tenants are enthusiastic over the idea. Real estate agents are most convincing in expressing their belief that the percentage lease will procure for the landlord all the location is worth. I believe that the passing of the depression into history, will also witness the passing of the straight percentage lease. I would rather pin my faith on experience than experiment, believing as I do that percentage leasing is experimental and that we have not had sufficient experience to anticipate all situations to safeguard the landlord's interests.

It has been suggested, as a justification for the percentage lease, that landlords are, in fact, partners of tenants, but if this is the case, strange as it may seem, the

Mr. Pearce delivered this address before the California State Association of Building Owners and Managers February 24, 1934, Long Beach, California.—Ed.

tenant was not so concerned in having the landlord as a partner in the days of prosperity. Now that things are a bit mixed up, the tenant is only too anxious to invite the counsel of the landlord. Not so in prosperous times, and during these balmy days I doubt if there is a case on record where a tenant voluntarily offered to pay an increase in rent, notwithstanding the fact that operations of the tenant under the partnership idea would have warranted a larger rental. If it be true that a partnership exists between the landlord and tenant, in entering into percentage leases, the landlord becomes more or less a partner in undertakings of which knowledge may be lacking, and in entering into such partnerships, certainly the landlord should possess the requisite knowledge in determining the gross sales on which to base a percentage for rent. This rental income, then, in connection with the partnership, is subject to the risks of the business, which risk the tenant apparently is not willing to assume, because:

1. The tenant has not enough confidence in his ability to earn a fixed rental; or
2. the tenant has not intelligently planned the business so as to know what profits are reasonably to be expected, and thus be able definitely to arrive at a proper rental.

The landlord should be no more responsible for losses sustained by the tenant, any more than the tenant could be obliged to participate in losses of the landlord. Should the landlord be obliged to go out of his sphere of business and enter into partnerships in business of which he has little, if any, knowledge?

I am wondering whether the thought foremost in the minds of some tenants is not driving the best bargain possible, uninfluenced by any consideration as to what might be a fair percentage of rent. If the property owner has been slow to accept percentage leases, it might be ascribed, in part at least, to a feeling of mistrust. I dispute the statement that experience shows safeguards can be set up against the dishonest tenant.

Difficulties in Checking Tenants

Under the terms of a percentage lease, the lessee, of course, agrees to keep accurate and proper books of account, truly reflecting the gross receipts and sales, which books shall at all times be open to the inspection of lessor, but is it possible to control the action of a tenant to the point of knowing whether or not two sets of books are kept, or know for a fact that the receipts are duly recorded in the cash register? The matter of determining the gross income or gross sales is a vexing one. Merely taking the unverified statement of a tenant would be the same as accepting whatever sum the tenant wished to pay, which might be nothing! Even an audit of the books as well as the personal accounts of the tenant, could fail to disclose the true status of affairs where concealment was intelligently planned. Incidentally, the cost of an audit, under percentage leases, is an additional item of expense. Difficulties most assuredly arise when a verification of the gross sales is attempted.

In referring to the minutes of the 1931 National Convention of Building Owners and Managers, I find that the question was asked:

QUES. "Have you thought of accompanying the statement with an affidavit so as to bring the thought of perjury into intentional evasion?"

ANS. "No, that has not been done so far as I know. I suppose it could happen; frankly our tenants are of such calibre generally that we don't have to take such drastic steps."

If we all had that kind of tenants, I'd say that the millennium had arrived.

I do not and cannot subscribe to straight percentage lease. What would

prevent the tenant, in spite of the provision to keep and perform the terms and conditions of a lease, to fail to put the proper effort into the upbuilding of a business, under which conditions any percentage for rent could depreciate to such an extent that the lessee might for himself create a nuisance value, even to the point that the landlord might be forced into the position of having to pay a consideration for the recovery of the premises? This condition might be brought about by one or two reasons, either the location proving not adaptable to its operation for a particular line of business, or the tenant capitalizing on bringing about poor business purposely to produce a most unsatisfactory rent. Such a situation of being left to the mercy of an irresponsible tenant could hardly be considered equitable and fair to the landlord.

PROPER PERCENTAGE

There is much uncertainty in the percentage arrangement—and uncertainty paralyzes business. There are different plans of merchandising, all of which figure in arriving at a proper percentage table. Who is the authority for determining the percentage for rent? I have before me a composite table, included in which are tables of percentages suggested by Thorson, Babson, Harvard University, W. Ross Campbell Co., Mark Levy and Brother, Certified Public Accounts, articles that have appeared in the Los Angeles Times, Skyscraper Management, Southern California Business, a table of percentages submitted to the 1929 National Association of Building Owners and Managers. I assure you that there is a wide divergence of ideas on percentages. For instance, barbers from 10% to 15%; beauty shops from 10% to 25%; florists 10% to 20%; men's furnishings 11% to 15%; automobile accessories 6% to 10%; telephone booths—local calls—15% to 40%. The composite table before me includes 121 different kinds of business. One of the authorities says "Nuts—can pay 7%." I doubt if a Nut could pay anything—"Nerts" could probably pay 6%. Again I refer to the minutes of a convention of the National Association, at which time an authority made this statement:

> "I have been bold and brave to put out a percentage list once or twice but I am not going to do it again, because I got my neck out."

I reiterate that determining a rate of percentage requires exhaustive and a scientific analysis and there is still a wide difference of opinion as to what constitutes a fair percentage for the payment of rent. The matter has been discussed in many articles in an effort to arrive at a fair basis of how much rent should a merchant pay. In one article it is stated that this cannot be satisfactorily answered until the answers to 16 questions have been obtained and analyzed. Surely the mere statement that 16 questions must be answered and analyzed in itself demonstrates the difficulty of determining percentage rates. Aside from the difficulty in determining the proper percentage other perplexing problems necessarily arise. To illustrate: suppose the tenant, as a part of the business, acts as an agent in selling goods for others, such as memorandum merchandise, are these sales to be included in the gross sales upon which rent depends?

No consideration of the question of percentage leases from the standpoint of the lessor is complete without a consideration of the effect of such leases upon realty values. I would like to quote an extract from a letter received from Mr. J. B. Van Nuys, whom you all know, and recognize, as an outstanding authority on realty matters, and former President of the Los

Angeles Building Owners and Managers. Mr. Van Nuys said:

"I cannot see but that the more publicity is given percentage leases, the more harm will accrue to stabilize the value of real estate. This is what attracts owners to this type of investment, rather than to securities."

Real estate has a relative stable value and the constant rental plan establishes realty values. With rents based upon percentages and subject to fluctuations of the merchandising market, would this not affect real estate values and subject real estate to be valued in the same manner as stocks and securities are now valued? Perhaps I should not remind you of the stock market upheaval of 1929.

It has been said in favor of percentage leasing that it is the best means of measuring buying power; makes it easier to secure high grade tenants; makes for closer team work between merchant and landlord; removes guess work from future valuation; bases rent on market value, not investment; makes for more contented and successful merchants; is fairest to seasonal merchandisers, and forces tenants to become better merchants, all of which is too one-sided in favor of the tenant. The same authority who offers the foregoing analysis apparently had but one word of caution for the landlords and that was in the event of an unsatisfactory system of checking sales or fraud on the part of the lessee.

I had supposed that the payment of rent under a percentage lease would automatically adjust upward as business improves, without the necessity of further arguments, but this view is apparently not shared by tenants generally. In this connection I refer to the minutes of a National Convention where the statement is made by a representative of a large chain store concern that:

"We never have been strong for percentage leases. I made one for the ——— company several years ago. Fortunately, we put a stop loss on to it. It was just one of those breaks where we did considerable more business from the start than we ever expected to do. From the landlord's standpoint this may be a good lease, but I doubt if you will find many chain stores that will make a lease of that kind without putting in the maximum rent."

Here's a situation where the tenant cancelled a percentage lease because he thought the landlord was getting too much rent! As a further illustration of the attitude of a large tenant, I quote further from the same source:

QUES. "Have you had any experience in percentage leases and what do you think of them?"

ANS. "Yes, as a general rule as far as the chain store is concerned it is a good proposition because we have the shoe on the right foot!"

The payment of rent is supposed automatically to adjust upward under a percentage plan. Of course, it is just too bad for the landlord if the adjustment is automatically downward.

I do not believe that the percentage arrangement disposes of future arguments over rent. I can assure you that requests have been made for reductions in the percentage rate with just as much vigor and determination, as the requests all of us have received for reductions under a straight rental lease.

I quote from a letter received from a prominent realtor of Chicago, as follows:

"Prior to 1929 there had been established in Chicago pretty definite percentage rates for various lines of merchandise, but since that time retailers have insisted that the old rates were entirely out of line and that with the smaller margin of profit no retailer could afford to pay percentages formerly established."

If percentages are constantly to fluctuate by reason of the condition of the tenants' business, how can it be said that such leases tend to stabilize realty values?

I doubt the statement that landlords who have tried out percentage leases are looking upon this instrument with increasing favor. I know of instances where per-

centage leases have been converted into straight rental.

In a special edition, The Property Owner magazine has the temerity to answer the serious and important question of percentage leases in but one paragraph—that they are safe, practical, and sound for the owner. Irresponsible publicity is something that is most misleading to those earnestly endeavoring to gain for themselves sufficient knowledge and understanding of the true meaning of percentage leasing.

Space rented at less than cost is a continuing loss, and who can tell whether a percentage least would not provide rental at less than cost?

It is apparent that as knowledge is gained with reference to percentage leases the opinion of those of experience in this particular is changing. To illustrate: the present disposition of landlords is to be insistent upon a minimum rental. In 1931, Mr. F. S. Slosson, the now President of the National Association of Building Owners and Managers, seemed to believe that the better plan would be to eliminate the minimum rental entirely. Since that time, however, Mr. Slosson has seemingly felt compelled to revise his views. In this regard, I take the liberty of quoting from him as follows:

"Some of the best paying percentage leases are leases with no minimum guarantee at all."

QUES. "But you seem to indicate that a better plan would be to eliminate the minimum rental entirely."

ANS. "The reason I suggest that is this: there are certain concerns that are in the market because they know it is a tenants' market and are refusing to pay adequate minimum rental." "Now to get outstanding merchandisers I would rather have them on no minimum than to have mediocre merchandisers on a minimum and percentage basis."

In 1932, Mr. Slosson said:

"I do not believe in no-minimum guaranteed leases. There are exceptions, however. I would not guarantee any leases without a reasonable minimum guarantee and I think 50% of the asking price is proper!"

"At the present time I would say that no less than 50% nor more than 75% was a fair justified minimum guarantee, and not on an inflated asking price either. I am not in sympathy with a no-minimum guaranteed lease."

In 1933, his views were expressed as follows:

"Your minimum guarantee today represents today's market price payable on a straight rental guarantee with the percentage feature to help you in case of inflation or an improved condition of merchandising."

"My advice in making leases at the present time is first to get a fair, substantial and equitable guarantee, probably based on today's market value."

"I will not, and I have not made a single straight percentage lease without a minimum guarantee. This is a vicious practice and is no incentive to build up a big business volume. If he has a fair, substantial minimum guarantee he will use his best efforts to increase his volume. You cannot afford to make a retail store lease without a fair minimum guarantee."

To admit that a minimum rental is essential in every percentage lease is to confess an inherent weakness in the soundness of percentage leasing. The very idea of a minimum rental is but an attempt to denominate an instrument as a percentage lease which is really not such, for it is obvious that the minimum rental, according to Mr. Slosson's more recent recommendation, would represent the market value or the figure for which the landlord would be willing to lease on a straight rental guarantee.

There was an earthquake last Tuesday—7,000 miles away from Long Beach—that's the kind we like—quakes that keep their distance! I hear of percentage leases in the East. That's the kind I like, in the East. I do not know who originated the "recapture clause," but I venture to say that it is the "brain child" of a tenant—or perhaps a real estate agent. This "lease evasion" clause is supposed to safe-

guard the lessor in the event of the failure of the lessee, but as a matter of fact, it is just another "out" for the tenant in avoiding a definite obligation for the payment of a fixed rental. Why not think up a few clauses in the event of failure of the landlord? And now I come to think of it, the ease by which tenants have been able to evade obligations through the medium of bankruptcy reminds me that tenants may not be as responsible as the landlord, as a matter of fact few tenants have equal responsibility as the landlord's. Somehow or other, I become discouraged when I contemplate relying upon experts for the establishing of percentage rates for rent—experts—super minds—analytical experts—efficiency experts—public accountant experts—but I am afraid that this has been a bad season for experts.

I remind you of the recent action of the Board of Directors of the Los Angeles Building Owners and Managers Association, in going on record opposing percentage leases. I call your attention to the bulletin dated August 22, 1932, issued by Ross Grant, Secretary of the Los Angeles Association, reproducing nine recommendations of a Special Committee of the Seattle Association concerning percentage leases, and the first recommendation was:

> That no straight percentage lease be made for a period longer than six months without a recapture clause.

The boys up north are apparently a bit suspicious of percentage leases.

In conclusion I desire to express my obligation for much of the information obtained to Mr. F. S. Slosson, who is generally recognized as an outstanding authority upon leasing and who has devoted a great deal of time and effort to a consideration of the problems involved in leasing.

The Place of Buildings in Appraising Illinois Farms

By Charles L. Stewart

REFERENCE to three tables, together with a few comments may aid in dealing with the elusive problem of appraising buildings as parts of farms.

All of the tables are based on information for Illinois from the United States Census. The question is sometimes raised as to how accurate are the census valuations of improvements on Illinois farms. It may be of interest to note that in 1928 before census data had been collected on the value of dwelling houses separately, certain tentative estimates were prepared based on 178 farms in four counties, first mortgage loans having been made on these farms through the Federal Land Bank of St. Louis. In the sample farms appraised during the period, 1923-1928, it would be expected as shown in three of the four counties that the proportions of the valuations represented by buildings would be larger than in the total number of farms in these counties as reported in the census of 1930, inasmuch as most of the shrinkage in valuations during the period, 1920-1930, was in the land alone and not in the buildings. It is probable that conservative tendencies revealed by land bank appraisers applied as strongly to the land as to the buildings and to other buildings as to dwellings. The close consistency between the ratios shown by the sample farms and the total census group in each county affords an indication, limited though it is, that there is a considerable degree of accuracy with which the buildings were evaluated as compared with the land and as between the classes of buildings themselves.

Farms of different types and sizes differ not only in the total valuations of real estate per farm and per acre, but in the ratios of the component elements to one another.[1] The valuation of farm buildings per farm in Illinois in 1930 ranged from $573.00 on forest products farms to $33,604.00 on country estates and institution farms, both groups of farms being listed as abnormal. Among the ten types of farms regarded as normal the valuation of buildings ranged from $947.00 on cotton farms to $5,027.00 on animal-specialty farms. The average for all types was $3,641.00.

Land averaged eighty-three percent of

1. See *Farm Real Estate Valuations in Illinois with Special Reference to Township Averages.* Agricultural Experiment Station, University of Illinois, Bulletin 399, pp. 570-572.

TABLE 1.

Comparison of Farm Real Estate Valuations per Farm and Percentage Distribution Among Component Elements of Real Estate, 178 Illinois Farms Appraised by Federal Land Bank Appraisers, 1923-1928, and 10,223 Illinois Farms Reported to the Census, from Selected Counties, 1930.

	Champaign		Warren		Wayne		Winnebago	
	Census	Bank	Census	Bank	Census	Bank	Census	Bank
Number of farms	3,315	72	1,870	31	3,110	39	1,928	36
Valuation per farm—								
All farm realty	31,116	30,418	25,207	27,378	3,984	5,238	16,697	22,172
Land only	26,122	25,751	20,583	22,094	2,620	3,825	10,793	16,716
All buildings	4,994	4,667	4.624	5,284	1,364	1,413	5,904	5.456
Farmers' dwellings	2,321	2,358	2,401	2.519	810	906	2,846	2,389
Other buildings	2,673	2,309	2,203	2,765	554	507	3,058	3,067
Percentage distribution of realty valuations—								
All farm realty	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Land only	84.0	84.7	81.7	80.7	65.8	73.0	64.6	75.4
All buildings	16.0	15.3	18.3	19.3	34.2	27.0	35.4	24.6
Farmers' dwellings	7.4	7.7	9.5	9.2	20.3	17.3	17.0	10.8
Other buildings	8.6	7.6	8.8	10.1	13.9	9.7	18.4	13.8

*Summary entitled "Value of Dwelling Houses on Illinois Farms (Tentative Estimate)," in *Development of the Farm Home,* Agricultural Adjustment Booklet, University of Illinois, October, 1928, pp. 8 and 9.

the valuation of cash-grain farms of Illinois, but not quite sixty percent of the valuation of poultry farms, the average for all types being seventy-seven percent. The other twenty-three percent of the valuation for all types was divided nearly evenly between farmers' dwellings and other farm buildings. On self-sufficing farms, however, farmers' dwellings had average values practically double those of other buildings. In abnormal poultry and fruit farms, likewise, values of dwellings were considerably larger than of other buildings, and on crop-specialty and general farms they were larger. On cotton farms, with their low valuations for dwellings, it is not surprising that valuations of other buildings should also be small even though fifty-six percent larger than those of dwellings. On dairy, cash-grain, and animal-specialty farms, non-dwellings were more valuable than dwellings by seventeen, fifteen and thirteen percent respectively, these being types which had comparatively high valuations per farm for both groups of buildings.

Valuation of dwellings per farm on Illinois farms under twenty acres was higher than on those between twenty and one hundred and seventy-five acres but lower than on those of one hundred and seventy-five acres and over (Table 2). Valuations of other buildings were higher on farms under twenty than on those from twenty to fifty acres, but less than on farms of fifty acres and more. On farms of twenty to fifty acres the valuation of the farmer's dwelling averaged $1,200.00 and other buildings $718.00. Farms of no other size group showed as low averages as these. The valuation of farmers' dwellings on farms of one thousand acres and over was about 4.3 times as high as on farms of twenty to fifty acres, and that of other buildings 25.1 times as high.

Expressed on an acre basis, the valuation of buildings other than farmers' dwellings in Illinois averaged 11.6 percent as much on the farms of one thousand acres and over as on farms under twenty acres, and the valuation of dwellings averaged only 1.7 percent as much. It would seem that on many farms of less than twenty acres, dwellings had other

TABLE 2.
Valuation of Farm Realty Per Farm and Per Acre and Percentage Distribution Among Component Elements of Real Estate, by Size of Farms, Illinois, 1930.
(Based on U. S. Census)

	Total	Under 20 acres	20 to 49 acres	50 to 99 acres	100 to 174 acres	175 to 499 acres	500 to 999 acres	1000 acres and over
Number of farms	214,497	16,839	21,654	41,678	72,347	59,728	2,061	190
Acres	30,695,339	148,451	737,166	3,152,955	9,929,884	15,186,018	1,262,654	278,211
Valuation (Thousands of dollars)—								
All farm realty	$3,336,049	$89,227	$110.970	$312.135	$1,041,285	$1,633,396	$120,645	$28,340,895
Land only	2,555,100	43,106	69,422	213,229	780,702	1,323,384	101,268	23,980,723
All buildings	780,949	46,121	41,459	98,906	260,584	310,012	19,377	4,401,172
Farmers' dwellings	386,688	30,358	26,013	55,523	127,883	138,768	7,170	978,800
Other buildings	394,261	15,768	15,445	43,383	132,701	171,244	12,207	3,427,372
Valuation per farm—								
All farm realty	15,553	5,299	5,125	7,489	14,393	27,347	58,587	149,426
Land only	11,912	2,560	3,206	5,116	10,791	22,157	49,185	126,262
All buildings	3,641	2,739	1,919	2,373	3,602	5,190	9,402	23,164
Farmers' dwellings	1,803	1,808	1,201	1,322	1,768	2.323	3,479	5,152
Other buildings	1,838	936	718	1,041	1,834	2,867	5,923	18,012
Valuation per acre—								
All farm realty	108.68	601.05	150.54	99.00	104.86	107.56	96.55	102.05
Land only	83.24	290.37	94.17	67.63	78.62	87.14	80.20	86.23
All buildings	25.44	310.68	56.36	31.37	26.24	20.41	15.35	15.82
Farmers' dwellings	12.60	204.47	35.29	17.61	12.88	9.14	5.68	3.52
Other buildings	12.84	106.21	21.07	13.76	13.36	11.27	9.67	12.30
Percentage distribution—								
All farm realty	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Land only	76.6	48.3	62.6	68.3	75.0	81.0	83.9	84.5
All buildings	23.4	51.7	37.4	31.7	25.0	19.0	16.1	15.5
Farmers' dwellings	11.6	34.0	23.4	17.8	12.8	8.5	5.9	3.0
Other buildings	11.8	17.7	14.0	13.9	12.7	10.5	10.1	12.1

Census, 1930, Size of Farms, 17, 37, 49, and 56.

TABLE 3.

Number of Farms, Acres, and Valuation of Farm Real Estate, and Totals Per Farm and Per Acre, and Percentage Distribution Among Component Elements of Real Estate, by Size of Farms, Illinois, 1900 and 1920.

	Year	Total	Under 20 acres	20 to 49 acres	50 to 99 acres	100 to 174 acres	175 to 499 acres	500 to 999 acres	1000 acres and over
Number of farms......	1920	237,181	16,710	26,989	51,920	81,459	58,186	1,733	184
	1900	264,151	19,635	41,160	65,851	81,338	53,834	2,051	282
Acres	1920	31,974,775	156,187	925,154	3,925,671	11,133,433	14,501,272	1.057.205	275,853
	1900	32,794,728	194,355	1,431,732	4,979,857	11,065,345	13,481,125	1,258,084	384,230
Valuation (Thousands of dollars)—									
All farm realty......	1920	5,997,994	73,940	148,577	620,974	2,084,225	2,857,902	172,058	40,318
	1900	1,765,582	36,410	75,033	249,377	598,552	731,724	59,890	14,596
Land only	1920	5,250,295	41,210	108,731	511,000	1,818,541	2,578,665	156,141	36,008
	1900	1,514,114	24,594	58,589	206,228	513,430	644,306	53,622	13,343
All buildings	1920	747,699	32,730	39,846	109,974	265,684	279,238	15,916	4,310
	1900	251,468	11,814	16,444	43,149	85,122	87,417	6,268	1,254
Valuation per farm									
All farm realty.....	1920	25,289	4,425	5,505	11,960	25,586	49,117	99,283	219,117
	1900	6,684	1,854	1,823	3,787	7,359	13,592	29,200	51,762
Land only	1920	22,136	2,466	4,029	9,842	22,325	44,318	90,099	195,694
	1900	5,732	1,253	1,423	3,132	6,312	11,968	26,144	47,315
All buildings	1920	3,152	1,959	1,476	2,118	3,262	4,799	9,184	23,423
	1900	952	602	400	655	1,047	1,624	3,056	4,447
Valuation per acre									
All farm realty.....	1920	187.59	473.41	160.60	158.18	187.20	197.08	162.75	146.16
	1900	53.84	187.34	52.41	50.08	54.09	54.28	47.60	37.99
Land only	1920	164.20	263.85	117.53	130.17	163.34	177.82	147.69	130.53
	1900	46.17	126.54	40.92	41.41	46.39	47.79	42.62	34.72
All buildings	1920	23.39	209.56	43.07	28.01	23.86	19.26	15.06	15.62
	1900	7.67	60.79	11.49	8.66	7.69	6.48	4.98	3.26
Percentage distribution									
All farm realty	1920	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	1900	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Land only	1920	87.5	55.7	73.2	82.3	87.2	90.2	90.7	89.3
	1900	85.7	67.5	78.1	82.7	85.8	88.1	89.5	91.4
All buildings	1920	12.5	44.3	26.8	17.7	12.8	9.8	9.3	10.7
	1900	14.3	32.5	21.9	17.3	14.2	11.9	10.5	8.6
Attained proportion of 1930 percentage of valuation in buildings	1920	53.3	85.7	71.7	55.9	51.2	51.6	57.7	69.0
	1900	61.1	62.9	58.6	54.6	66.8	62.6	65.2	55.5

residential use for the occupying family than solely to meet its needs in connection with farming activities. Valuations of other buildings were 34.2 percent of the valuation of all buildings on farms under twenty acres, 37.4 percent on farms between twenty and forty-nine acres, 43.9 percent on farms between fifty and ninety-nine acres, from fifty to sixty-three percent on farms from one hundred to one thousand acres and 77.8 percent on farms of over one thousand acres. This relationship of dwellings to other buildings may be expressed as one in which dwellings occupied a maximum relative position on the smallest farms, an equal position on farms from one hundred to one hundred and seventy-five acres, and a position of progressively smaller relative prominence on the larger farms.

The two classes of buildings together accounted for over half of the realty valuations of the farm under twenty acres, but gave way to larger and larger relative prominence of land until in the case of farms of one thousand acres and over land accounted for all but 15.5 percent of the valuation.

It would be desirable for census studies of size of farm to be carried far enough at the next census to show averages per farm and per acre and ratios, such as are presented in the accompanying table for all farms in Illinois, separately for each type of farm, and for each crop reporting district or farming-type area. In this way a more nearly adequate picture of the differences existing at a given time could be obtained.

It is desirable also to ascertain how the passing of time in a state such as Illinois has affected the place of buildings in the valuation of farm real estate in the past so as to have a better basis for assumptions as to what the dynamic aspects of the problem may probably be in the future.

Earlier valuations of buildings, without reference to the separation of dwellings

from non-dwellings and without respect to type of farms, were reported by the census for 1900, 1910, 1920, and 1925. Certain changes between 1900 and 1920 (Table 3) and between 1920 and 1930 (Tables 2 and 3) are especially to be noted.

During the twenty years ended in 1920 the proportion of the valuation of the farm real estate imputed to buildings in Illinois increased in farms under one hundred acres and in farms of one thousand acres and over, but decreased in farms of one hundred to five hundred acres sufficiently to cause the general average of all farms to decline slightly. This was a result of an increase in valuation of land only outrunning the increase in valuation of buildings. Farms were increasing in average acreage. During the ten years, 1920 to 1930, the proportion of the valuation of the farm real estate imputed to buildings increased in farms of all size groups in the state, practically doubling in farms of one hundred to five hundred acres and nearly doubling in farms of fifty to one hundred and five hundred to one thousand acres. While increases in valuation of buildings were not large for any size group and were actually smaller in farms of one thousand acres and over, there was decreased valuation of land in all size groups, the decrease being to less than half in farms of one hundred to one hundred and seventy-five acres. Farms were continuing their growth in average size through this decade. Farms of one thousand acres and over showed lowest proportions of their valuations in buildings in 1930 as in 1900; nevertheless they showed consistent increase in this proportion. Consistent increase over the thirty years is likewise indicated in farms under one hundred acres, particularly in those under twenty acres, where the proportions were highest throughout.

A trend toward larger farms, if rapid enough, might exert an influence on buildings' valuations similar to increased physical depreciation or other change affecting the valuation adversely. While a shift in type of farming might be an accompaniment to an increase in acreage per farm, it is not to be assumed that such shift in type would preserve full usefulness to the types of buildings, particularly buildings other than dwellings, which would be carried over from the earlier period. In fact, any change in type of farming accompanying an increase in size of farms might as readily make the buildings carried over less suitable as to preserve or increase their suitability. Buildings not needed in a new farming regime may have salvage value high or low according to distance from a city or village or from a highway site for residential use in connection with a part-time farming or roadside marketing enterprise.

By the same tokens, a trend toward decrease in the acreage per farm should ordinarily be favorable to avoidance of such special depreciation in valuations of buildings. Insofar as a back-to-the-land movement exerts influence toward increasing farm population, the shortened incomes actuating the movement may not enable the incomers to support high valuations in houses, except as they are occupied by larger numbers of users, thus possibly hastening depreciation. Increased demand for houses incident to subdivision of farms may tend to maintain high valuations of buildings per acre, or increase them. Here again, however, the type of houses coming into demand may be such as to induce new construction.

To buildings as well as to soil and other real estate items must be credited the products to which a farm gives rise. The rent of buildings is as definitely included in the rental share of products or in the corresponding cash rent as is rent of the

land, rent of the water facilities, and rent of other real estate items.

As a claimant for sharing in the farm rent a building is often in a weak position. At any given time the house may help to make up some shortages in the barn space. If a house burns down, the barn or some other building may be called upon, seldom for more than a short period, of course, to serve in part as a residence.

House, barn, and other structural facilities, where their quantity or quality exceeds that which is consistent with the type of farming, the size of the farm and of the family operating it, set up handicaps in respect to taxes, insurance, and maintenance which may detract from annual use value or the sales value of the property.

On the other hand, farms are sometimes underequipped with house, barn, and other building facilities. In some cases the deficiency can be partly supplied by renting the use of facilities from owners of adjacent land, even, in some cases, in a village. It would be unusual for such shortage in facilities to be overcome without considerable payment of rent by the farm owner or without his making allowance, if he is a landlord, in reduced rent charged. In a state such as Illinois the amount of excess building in barns and in other specific types of improvements on farms may be less in aggregate than the amount of deficit in such equipment.

It would be hazardous to assume, therefore, that the average valuations per farm and per acre and the distributions among component elements of farm real estate as they have existed at any one time are optimum. Nevertheless, it seems to be a course of safety to limit the share of the rent and of capitalized valuation of an improved farm property imputable to the land to the proportion of the total real estate valuation which the land by itself has been occupying on farms of similar type and size, enlarging this share if growth in size of farm seems likely to leave stranded the set of buildings on this farm or other sets in the neighborhood. In very small farms it is clear that the amount added by a set of buildings to the value of a property from a purely agricultural point of view must ordinarily be kept below the ratios which a census analysis shows. Here, frequently, there is a combination of suburban residence and farm house which may add to the possible sales price of the property, but, where regulations in the lending of money are such as to require avoidance of lending upon non-agricultural assets, the non-agricultural element should be regarded at most as tending to collateralize the loan somewhat and as modifying the marketability of the property for better or for worse, if taken over in satisfaction of debt.

The general effect of the preceding analysis is to suggest the propriety of assigning a moderate maximum share of the rent and of capitalized valuation of a farm to the buildings if they are present in sufficient quantity and quality to take the share, and if not so present, to deduct for the deficit below the appropriate norm as indicated by long-established good balance in practice.

Since Illinois farms in general have been increasing in average acreage, thus setting up a presumption that this trend may continue, it may be that in general the valuations of buildings will have difficulty in avoiding obsolescence at the higher rates which are indicated as probable accompaniments of an adjustment of this kind.

In spite of recent thrusts upward in the labor and material costs in most localities of Illinois, it seems that conservatism in placing monetary valuations on farm buildings is to be expected, where resale of the property has to be taken into account as a possibility.

Appraising Single Family Residences

By WM. E. MOSBY, M. A. I.

RESIDENTIAL properties are always classified as non-investment properties, the fact being recognized that while they are dealt in on the open market, yet they are never sold to produce a certain interest return upon the purchase price. The amenities are the things which are emphasized by the salesman. On the other hand, in the sale of investment properties our client is primarily interested in the rate of interest the property will yield, based on the purchase price. We shall see later in this discussion that the value of a property is the present worth of all the rights to future benefits arising from ownership. Therefore, in the appraisal of a property we attempt to estimate the present worth of these future benefits, so that in the appraisal of investment or income properties, if we do not consider any amenities whatsoever, there remains a fairly definite yardstick with which to measure value. This yardstick is the net income capitalized. While, on the other hand, so much of the future benefits in residential property are amenities which cannot be priced, computed, and capitalized, as we would capitalize net rents, our tasks as appraisers of residential property become much more difficult.

There are in common use today but three methods of arriving at a price or value of residential properties:

1. Comparative or Market Price Method.
2. Rent Capitalization Method.
3. Summation Method or depreciated reproduction cost of improvement, plus justified land value.

In the first method I refer to Market Price, not Market Value. Neither is the first method an appraisal, but is simply an estimate of selling price. An appraisal is not the mere statement that a property is worth $5,000.00 because it will sell for $5,000.00. An appraisal must entail a certain method or process in arriving at the estimate of future benefits, and the appraiser must be able to prove that his method shows sound reasoning.

The Standards of Practice of the National Association of Real Estate Boards defines property as, "All the rights to future benefits arising from ownership." Therefore, the value of a property at a designated date is the present worth of all the rights to future benefits that arise from ownership. These rights and benefits are, therefore, in the utility or use value of the property and may be expressed in the form of money obtained from rents or in the form of amenities. If we accept this definition of value, we are compelled to disagree with some of our outstanding appraisers who contend that there are several values, depending upon the purpose for which the appraisal is made; but it is my belief that there is but one true value. How can we as appraisers, when estimating the value of the future benefits of a property, say that those benefits are variable quantities, depending upon whether the estimate of these benefits are for a seller, for a buyer, or for a lender? It is very true that the market price will vary considerably, usually much below the true value in times of depression, and above in times of prosperity.

As appraisers, when we estimate the future usefulness of a property we can never ignore market price as it will have a very important part in our analysis. Yet

market price rarely if ever expresses the true value of a property. It is the true utility value of a property which we desire.

COMPARATIVE OR MARKET PRICE METHOD

As previously stated, this method is very often incorrectly called Market Value Method when Market Price Method is meant, or the price a property would bring if exposed to the market. If the market price is the information desired, the services of an appraiser are not required, it only being necessary to make the proper inquiries in the neighborhood where the property is located and in other neighborhoods for the sale prices of comparable properties. Naturally the local Realtor is the logical person from whom to obtain this information since he has compiled complete data on these sales and can usually give the required information so that sales prices can be properly stabilized. He may say that he sold the Joneses a home for $10,000.00 which was only worth $9,000.00 but that the Joneses desired to be near their married daughter and this was the only place available. He may also say that he had just sold another home for $6,500.00 and that this home was equally as good as the place he sold the Joneses but because the Receivers of the Failum Bank wanted to raise money for their Depositors, and because the Bank had acquired this property through foreclosure, it was willing to take a small loss. The items which influence Market Price, such as personal necessity, are numerous and need not be enumerated, but it is highly important for the appraiser to know all conditions surrounding a sale of comparable properties. It is also very important for the mortgage banker to know the correct sale price in case of trouble with his mortgage. It is my opinion, however, that sales prices and comparable prices are not methods of appraising but that they should be the results of the proper procedure in arriving at value through an estimate of the future benefits of the property.

CAPITALIZATION METHOD

For several reasons I believe that this method can be eliminated as a method in appraising of single family residences. The principal reason, as previously stated, being the amenities in this class of properties. It is very true that the proper rents should bear certain relationship to true value but it is very difficult to determine just the proper capitalization rate to use.

Investment properties are purchased as an investment and a man usually knows the rate of return he should receive to compensate him for the risk involved; but home properties are generally purchased to be used as a home or else are acquired through necessity, foreclosure, or otherwise. If the same capitalization rate is used on all classes of homes, the more modern are usually penalized while the older ones are inflated beyond their true value. Appraisers who attempt the capitalization of home properties usually capitalize the gross yearly rental on a 12% annual basis which is the same as a 1% monthly basis—or, for simplicity, they simply multiply the gross monthly rent by 100. They arrive at this 12% gross capitalization rate by assuming that the tenant bears all operating expenses, except taxes, insurance, repairs, depreciation, and rent loss or vacancies. These expenses in an average case might approximate the following with interest included to total the full 12%:

Taxes	2½%
Insurance	¾%
Repairs	¾%
Depreciation	1½%
Rent Loss	1½%
Interest on Investment	5%
Total	12%

If this assumption is correct and if these are the only expenses which will be paid by the owners and if the proper percentages are assumed for these expenses the owner would receive 5% interest on his investment. I believe that you will agree that this at best is but a rough method. It is comparable to the method of saying that the value of any property is so many times the gross rents. If the necessary time is taken to arrive at the proper expense items in capitalizing the gross rental, we might just as well take one additional step and capitalize the net rental. But it is my opinion that the time here involved, especially in wholesale appraising is not necessary since accurate results may be obtained by using the next method. It is, namely, the Summation Method. Provided, of course, all items which affect this property are properly reflected in our final value, there will always be a direct relationship between the proper rental and the appraiser's final estimate of value.

Summation Method or Reproduction Cost Less Depreciation, Plus Justified Land Value

By the Summation Method, I refer to the sum of the justified land value, plus the proper depreciated improvements. The appraisal on both the land and the improvements must be made at the same time by the same appraiser and the land and improvement at all times treated as one property. The improvements are referred to as the main building and the appurtenances thereto. To attain the correct final results by this method three separate appraisals are made and properly weighed. They consider neighborhood, the land, and the improvements. The neighborhood because it so vitally affects the final value of both the land and the improvements and also its relationship to the general community and to the city as a whole. In appraising the neighborhood we ascertain the kind of people, their nationality, their pride of home ownership, and the relationship of the property to the neighborhood. The kind of buildings; do they conform harmoniously with the other buildings; are there rooming houses; are there nearby nuisances such as factories, railroads, or a threat of invasion by undesirables; is it properly zoned and restricted as to race, kind of building, building lines, stores or apartments; how long do restrictions run; is there any transition, if so, to what; is the trend stationery, improving, or deteriorating; is it a new or an old district; is it properly protected by police and against fire; has it a proper sewer system, gas, electricity, and a good quality of water; is there a demand for property in general in this neighborhood; is it convenient to the various facilities, such as churches, parks, playgrounds, schools (both grade and high); and also convenience to transportation; the kind of transportation and the running time to the principal business district in the city?

The Land

After the neighborhood has been properly appraised and weighed the next consideration is the value of the land and the various influences which affect our appraisal of the neighborhood. Those influences which affect the value of the improvements are all reflected in the value of the land, but in most instances these influences are in the form of a deduction. As the value of the land is usually not sufficient to absorb all of these deductions, they are, therefore, charged against the improvements and the land is appraised by the comparative method, plus the knowledge and judgment of the appraiser.

In working on the comparative method we obtain a number of evidences of value

through sales, offers, asking prices, and opinions. These various evidences of value are then corrected for circumstances, date, character of sub-soil, elevation and shape of lot, plottage, location as compared with the land to be appraised, and other peculiar differences that might exist. It is very important, of course, to have a large enough number of evidences of value to obtain a fair cross-sectional picture of what other people believe the future holds for the land. All these evidences of value are properly weighed and analyzed and then the judgment of the appraiser is applied. It is just as important that the lot conforms to the approximate size and shape of other lots in the given neighborhood as it is for the building to conform. For instance, a twenty-five foot lot standing by itself where the necessary plottage could not be completed, and it could not be sold to the adjacent owners, would have very little value in a community of $20,000.00 homes situated on wide lots. Narrow lots in a home community invite cheap construction and low values. A lot having rock just below the surface, an irregularly shaped lot, a below grade lot, an extra high lot, a narrow or shallow lot, and a lot having easements will usually suffer in value at least to the extent of the cost, if not much more than the actual cost, of putting this lot in the shape, size, and condition of surrounding lots. The value of land to be used for a single unit family dwelling has a comparatively small range and generally speaking it rarely exceeds $100.00 per front foot. By far the greater portion runs from $20.00 to $60.00 per front foot.

THE IMPROVEMENTS

After the land value has been established, the improvements are then considered. To obtain the correct final results it is imperative that our analysis be correctly started. Therefore, we shall be compelled to have correct new reproduction cost unit prices for the various types of buildings. We will also have the proper "adds" and "deducts" for area or volume—also for the various items which may not be found in all buildings of a certain type. The correct building measurements are essential in figuring the floor area or the cubical contents. It is my opinion that the cube method is preferable to the square foot floor area method as the chances for error is lessened in dealing with the larger figures involved in the cube method in arriving at the correct cubical contents. Furthermore, ceiling heights have no effect on the reproduction cost computed by the square foot method, yet we are attempting to obtain the correct new reproduction cost as a starting basis, so why not do just this thing even if all the added cost for extra high ceilings is again deducted in the form of obsolescence? Certain appraisal authorities tell us that in figuring new reproduction cost, we should only price those things used in the construction which are necessary. They say that if a bungalow has a 13 inch brick wall when but a 9 inch wall is required by the building ordinance, we should only consider the 9 inch wall in the unit price. If it has an extra heavy foundation, over-sized joist, studding or trim, to ignore this added cost in our reproduction cost. We have seen where this line of reasoning has caused appraisers embarrassment, for if a client loses confidence at one point in an appraisal, he is apt to lose confidence completely. The correct unit price through proper "adds" and "deducts" should always be used and then the proper deduction taken for those items used in the construction which are not necessary, as very likely added value should be given to some of these items.

After obtaining the correct new repro-

duction cost, in order to be consistent with our definition of value, we make the proper deduction for every item which affects the saleability, rentability, or desirability of the appraised property as residential property. These deductions are taken in the various forms of depreciation. But why do we say deductions when properties are sold every day for enough to cover the cost of the lot, the cost of a new building, sales commission, financing charges, and still leave a profit for the builder?

This sales price may or may not be the true value. A great many properties in the past have been sold at market price which showed a profit for the builder, but we have seen through this depression that this price did not represent their true value. For the sake of argument, we will suppose that market price and true value at some time or other were identical, so that if a profit is shown, extra value has been added somewhere, because true value should never exceed the justified cost. The lot may have been purchased below the market price level, or advantageous prices were secured on the materials used, or perhaps the builder had added certain items of value which had not been properly figured as cost. It may be that he spent a great amount of time and effort in attaining just the proper layout and room arrangement, in putting the right sized closet here and cupboard there, in getting the proper decorations and light fixtures, in installing a built-in ironing board, broom closet, or swinging faucet for the kitchen sink, and all those little items which appeal so strongly to the housewife and add value very much in excess of their cost.

DEPRECIATION

If we are satisfied that we have the correct new reproduction cost, we then properly depreciate the improvements to arrive at the proper value. Depreciation is defined as the "gradual exhaustion of the usefulness of the property; such exhaustion comprises wear and tear, decay or decline from natural causes, and various forms of obsolescence which are attributable to the normal progress in the arts, inadequacy to growing needs and the necessity of replacement by new inventions."

In 1929 a Committee of the National Association of Real Estate Boards through questionnaires tabulated from 111 Member Boards found that one family dwellings are estimated to have a fifty year period of usefulness in every type of construction, except frame, when their usefulness was estimated to continue about 33⅓ years. This information may be a guide in arriving at the proper percentage deduction for depreciation, based on the definition given.

The first deduction considered will be Physical Depreciation or the exhaustion of the improvements due to wear and tear or weathering. Under this consideration the future physical life of the property should be approximated. This is usually done by establishing the apparent age or the effective age of the appraised property. The effective or the apparent age established by the appraiser may be quite different from the actual age, dependent upon the care and maintenance which the property has received. Naturally in establishing this age, repair and replacement cost of worn out parts of the building, or fixtures will be considered. Such arbitrary procedure as depreciation of 1% a year for brick and 2% for frame buildings should be used as a guide only, and not as a positive fact. It is, however, possible to use certain constant percentages, based upon the proper effective age for

our total deduction for physical deterioration.

OBSOLESCENCE

The next deduction will be for Obsolescence. Under this heading is usually included everything which detracts from the desirability of the property as a whole and which has not previously been charged against the lot and which cannot be deducted as physical deterioration. It should include deductions for poor planning, poor architecture, poor surroundings, nearby nuisances, a threat of invasion by undesirables, narrow or shallow lots, or general old-style or out-of-dateness which comes with progress in the art of building design or fixture manufacturing. While there may rarely be obsolescence for out-of-dateness in a new building, there may be a great deal of obsolescence because of mistakes made in the design or construction of the building. But the deductions taken should never exceed the cost of replacing the old style with the new.

Obsolescence is often known as functional or economic depreciation. It is the failure officially and economically to perform the functions for which it was intended.

MISPLACEMENT

The next deduction taken is for Misplacement Depreciation. This deduction is often known as economic suitability to site, an over- or an under-improvement, inadequacy or super-adequacy to the lot. It is a deduction to be taken if the improvements are not proper for the site. We have heard the expression of "a $10,000.00 building in a $5,000.00 neighborhood." This deduction is the loss in value which will be entailed if the property is sold. Buildings must conform, not only in general design, but must also be in approximately the same price range with surrounding buildings or a loss will be shown. A $20,000.00 home in a town of fifteen hundred inhabitants will not show a value much greater than surrounding property on account of the limited number of buyers. We should always ask ourselves whether this is the kind of a building that the people in a community or the potential buyers want. A building may be proper for one neighborhood but if moved to another would be very much of a misplacement. An extra large kitchen would be out of place in one community but would be the thing desired in communities of a certain nationality. A tile roof or a colored tile wainscoting in the bathroom would be very much out of place in a neighborhood of modest homes and it would be necessary to write off in the form of misplacement depreciation almost the entire difference between their cost and the cost of a roof or bath comparable to those enjoyed by surrounding properties, yet these same things would be absolutely necessary in another neighborhood.

If we are now certain that all deductions have been taken from our improvements for every reason whatsoever we arrive at a figure which, when added to the land, will result in the correct appraisal of the value of the property. The appraisal of the entire property is always made as a unit and if the land and the improvements do not fit as a unit, additional deductions should be made, so that the results show the appraised value of the complete unit, both land and improvements. This process is based on the assumption that there is a demand for single unit family dwellings. If there is no potential demand, as is sometimes the case in "fished-out" communities or if the supply far exceeds the expectation of demand, then either a statement of this type should be made and a deduction taken from the appraisal or it should be written off by taking additional deductions.

Pitfalls in Residential Appraising

By NATHAN LIBOTT, M. A. I.

FRANKLY, fellow Realtors, I am at a loss to understand why I should have been asked to address you on the subject "Pitfalls in Residential Appraising," when all of our best informed politicians and practically all of the executives of our financial institutions say that anybody can appraise a house. To prove the accuracy of their knowledge, they have clerks, florists, chauffeurs, messenger boys, and what have you, doing their work; and the results are entirely up to expectations.

Isn't it a fact that most every real estate broker thinks he knows the value of a house? We all know many brokers who can just look at a house and, ipso facto, hocus pocus, give you the answer. You know,—sort of instinctive appraising.

I am not here for the purpose of sounding profound or of speaking in multiple syllable words of the ramifications of economic factors on the valuation of a house; but somebody has to talk about the simple things, the A B C's, upon which so many men and women stub their toes and fall.

Appraisal technique has developed words to cover certain general conditions; such as over-improvement, under-improvement, misplaced improvement, blighted district, district mutation, infiltration,—nice big, multi-syllabled words which should serve to impress the layman and the embryo appraiser. The question before us is how to tell what kind of an animal it is when we see it. You know, as children, we were taught to tell the difference between a horse and a cow. So, while we can, let's sneak up on these big words and see if we can learn how to tell 'em the next time we meet.

This address was given at the California Real Estate Association Convention in Santa Barbara, Calif., on October 5, 1934.

OVER-IMPROVEMENT

Out in the San Fernando Valley, with thousands of subdivided sand lots all around it, the following house (one of 5) stands:

These five houses were built by the subdivider at the time the tract was being sold.

The street is graded, concrete sidewalks and curbs are in. The property has no sewers, the lot is 50x120 feet with no alley.

The house we are going to appraise is now seven years old.

The exterior finish is stucco, with a concrete foundation, and the roof is 1/3 tile, balance composition. The exterior is exceedingly attractive, Spanish design of the California vintage.

The interior contains 7 rooms and 2 baths. The living room has a panel ceiling, and the walls are texture plaster. A large attractive fireplace is a feature of the living room. The other rooms are Sanitas and blank stock, hand decorated. The master bath room has a Pembroke tub, pedestal lavatory, colored tile floor, and a 5 foot wainscoting. Shower over the tub.

The entire floor plan and arrangement is desirable.

In a few words, the physical structure may be described as good, plus.

This house is vacant at present, but a similar house next door rents for $17.50 per month and a poorer house down the street for $15.00 per month. Two out of the 5 houses on the block are vacant.

Figuring the present depreciated re-

placement value of the improvements, you will arrive at approximately $2,800.00.

The lots originally sold under high pressure for $1,500.00 but similar lots are easily obtainable for $150.00 today.

The question we now have is what is the value of this house on this lot, and why?

I'll tell you how I answered it. $1,750.00 was in my judgment, the fair value of the property, due to the fact that it was an obvious over-improvement. No one who buys a lot for $150.00 will build this type of house, and so sooner or later the improvement will be comparatively low-priced.

In other words, whenever you have a house that is better than the average of the neighborhood, then you have a property which is usually worth much less than the depreciated value of the buildings.

UNDER-IMPROVEMENT

In a town of about 3,500 population, about 50 miles from Los Angeles, we have another house.

The property is located on a street that has a center parkway with a double row of magnificent palm trees. There is no question that the finest homes of the community are located on this street.

The lot is 50x148 feet and two very fine two story homes are located on each side of this lot. These homes are in keeping with the general environment.

The present market value of this lot is the sum of $1,250.00.

The physical improvements consist of the following:

A garage—type structure, 18x30 on the rear of the property which has been converted into a 3-room house. This building is eight years old.

Exterior: novelty siding, composition roof, and concrete foundation.

Interior partitions are wall-board. Plumbing is very cheap (Essex tub—no lavatory.) The floors are concrete, pine trim (very cheap). The interior, however, is well kept up and attractive.

The present tenant is paying $10.00 per month.

The present depreciated worth of the improvement was in my opinion, $600.00.

Again we have the eternal question which the appraiser asks himself. What is it worth, and why?

My mental analysis was as follows:

The building is an obvious under-improvement, and as a result cannot pay a return on the comparative land value. Based solely on the present earnings, the value would be far below $1,000.00, but yet I can remove the house and sell the lot for $1,250.00. Therefore, it must be worth at least that much. In addition, if I were to sell the lot today to someone who would build a house in keeping with the neighborhood, how much would this 3-room cottage be worth? Located on the rear of the lot, it could very easily be used as a servants quarters, or a den, or a home office.

And so, after weighing all the factors, I arrived at my opinion of $1,500.00.

Usually in the average comparatively new residential district, the value of the land is about one-fourth of the total value of the property. This proportion varies for different types of residential property and also varies with booms and depressions.

Whenever under present conditions, you find a house where the lot value is more than one-fourth of the total value—just look around and see if Mr. Under-improvement isn't present. If you find him, you will know that the value of the property is less than the present cost of duplication, less depreciation, added to the present value of the land.

MISPLACED IMPROVEMENT

In an outlying section of the City of Los Angeles we have the following house to appraise:

An irregular stucco bungalow built in 1930, containing 7 rooms and 2 baths. The house may be described as of a good-plus quality, being in type very similar to the house which I detailed in my first example.

The present depreciated worth of the physical improvement, namely house, double garage, et cetera, was in my opinion the sum of approximately $3,100.00.

This property is located on a semi-major boulevard about 8 miles from the center of the city. The street has been widened to 100 feet and has a 7-inch concrete pavement. An ornamental lighting system has been installed.

The property, of course, is unrestricted and is zoned for business. You know, every 100 foot street that goes from nowhere to nowhere was zoned for business during the booming twenties. There are two other houses similar to this one on the block,—and about 200 feet away we find a nice vacant one-story brick store building. Further down the block there is another store building which is rented to a cabinet maker. This 50-foot building is rented for $30.00 per month. About three-quarters of a block away on the opposite side of the street is a small Church building.

Recent sales of several similar lots in the immediate neighborhood have been made at approximately $1,000.00. I don't pretend to say that this is what they are worth, but this is what they brought.

The property we are appraising is rented to a chiropractor, who combines his home and office on the premises for the sum of $45 per month.

Since anybody can appraise a house, let us analyze it and arrive at what it is worth, and why: (1) Due to business usage of a few lots on the street, the property even though new, loses desirability as a home; (2) Any business use is at least 10 years in the future; (3) There is no use demand in this location for business property, now or in the near future.

However, any one of the vacant lots may be improved at any time with a business building, which might have highly objectionable tenancy from a residential standpoint.

The property being so-called business property, the erection of a home of this type was of necessity an economic mistake. As a result, we have an obvious misplaced improvement.

The hazard of ownership being great, the value of the property must suffer. My opinion of the present fair market value of the property after a thorough weighing of the probabilities of further business encroachment, both as to time and type, and also the possibility of selling the lot and moving the house, was not the sum of $4,100.00, but was the sum of $2,700.00.

Let me point out to you the fact that in the case of a misplaced improvement (i. e. where the building is not adapted to the site as regards utilization) you, of necessity, have an over-improvement as to cost.

Two and two make four in arithmetic, but the price of a lot plus the cost of a house doesn't always make value in appraising.

BLIGHTED DISTRICT

We now are called upon to appraise the following property:

A two-story frame house containing 8 rooms on the first floor and four on the second floor. The building was erected in 1903 in a close-in section of Los Angeles which, at that time, was one of the best residential districts of the city.

Originally designed for one family, it has since been remodeled with a minimum of expense into a two-family unit. I would

best describe it as a medium grade house of the era of 1900.

Allowing a 75 per cent depreciation factor, the present depreciated worth is the sum of $1,000.00.

As the district became old and the buildings obsolete, the section passed through the rapid stages of high grade rooming house, poorer grade rooming house, and now can be called a cheap rooming house district. The present use is the rental of rooms to Filipino boys. Both this house and the occupancy thereof is typical of the general neighborhood.

The present rental value is about $40.00 per month.

Scattered here and there throughout the district are 4- and 5-story apartment houses, which have never paid a return on the capital invested in them. No sales have been made in more than 8 years.

The land (50x150) is assessed on the basis of $200.00 per front foot. (Reason unknown).

Lest I forget, based upon some brilliant analysis, one of the large loaning institutions had loaned $8,000.00 on this property.

There is the picture. Now what's it worth?

Here, in my opinion, is one of the most difficult problems for the appraiser to answer. The fact that it is a blighted area is perfectly obvious. How long will it continue?—that is hard to estimate. My observation is that once a district is on the down grade, it is very, very seldom that it comes back.

After studying the problem, I gave the property a value of $2,500.00, stating that I would not buy it for that, but that I felt that it could be sold at such a price because someone would feel he was purchasing a wild bargain.

In appraising property in a blighted district—stop, look, listen, and then think twice.

District Mutation

Once again we are going to appraise a home, built in 1913, in what was unquestionably the choicest residential section of Los Angeles at that time.

This house contains 10 rooms, 2 sun porches, and 3 baths; and, when erected, was the last word in lavish appointments. For example, the living room is paneled in mahogany with velvet inserts to a height of eight feet. The dining room is paneled in matched oak to an eight foot height. A large built-in buffet takes up one wall of the dining room. The doors of this buffet are of cut glass. The breakfast room and library are finished in southern gum. Bookcases and writing desk are of the same wood.

The upstairs bath rooms are tiled to a height of 8 feet. One bathroom is exceptionally large with a separate stall shower. The other bathroom is of colored tile.

From this meager description of a home built in 1913 you must realize that the material and workmanship left nothing to be desired.

The lot is 60x149 feet. All other lots in the district are the same size. All other homes are of a quality on a par with this one.

Figured conservatively the cost today of replacing the building new, would be the sum of $15,000.00. It actually cost $18,000.00 to build in 1913.

Here again is the kind of a house anybody who is out of a job can evaluate. Perfectly simple, isn't it?

Yet, let's you and me do a little analytical thinking. (That's a $10.00 phrase meaning to use ordinary common sense.)

The section has lost public favor due to a combination of circumstances and age. Newer sections such as Beverly Hills, Bel-Air, et cetera have been developed. Here in Southern California, our best residential section of the moment during the past 30

years seems to enjoy that distinction for about 10 years and then the best section is somewhere else. Obsolescence takes a tremendous toll in this type of home. We do not have the spirit of the eastern seaboard, or of the European countries, where this house has been in the family since Charles the Ninth or Louis the Eighth. The modern generation look upon it as an old house, and so when the old folks pass on, the property is for sale by the estate.

There was no question in my mind that the district is changing to a type of inhabitant of a much lower purchasing power; and that in time (not far distant), it will go through the usual process of this type—ending up with rooming house use.

My opinion of the fair market value of the property was the sum of $9,000.00.

A word of friendly caution: when you are dealing with fine homes, look beyond replacement value and look to the general district. Once public opinion believes some other spot is the smart place to live, prices and values go down.

INFILTRATION

One more house to appraise and we will be through for today.

Here again we have an 8-room, two-story house, built in 1910. The type of construction can be classified as medium, minus. In other words, not cheap, but not on a par to be called medium.

The present replacement cost new, of the house and outbuildings would, in my opinion, be the sum of $4,600.00.

The lot is 47x142 feet to an alley. In 1910 this was a good section of the city. Today, we have this situation:—within a block we have a Japanese Church; one block west of the property and one block north, there are both Oriental and colored residents.

This particular block is the northern edge of a tract that is restricted against occupancy by any but the members of the Caucausian race. Other lots in the same tract, several blocks farther south have a value today of approximately $1,750.00.

Even an ex-teamster turned appraiser would recognize this infiltration, if he looked a block away, to get his bearings; but how are we to translate it into a minus value?

There is no question that both land value and market value are adversely affected in a situation of this kind. The same house situated within the colored district 2 blocks away or 2 blocks farther south would have a value today of about $3,000.00. Located as it is, it becomes a buffer, and as such suffers greatly.

For your information, I assigned a market value of $1,750.00 to the property; even though it is producing $35.00 per month today.

SUMMARY

Each of the examples I have used is based upon an appraisal that I have made during the last year. They are not figments of my imagination, but are problems that we meet most every day in our work.

In each case, before a final value estimate was arrived at, a great many other factors which I have not gone into, were analyzed and placed on the scale of judgment.

I, for one, don't know any short cuts to the land of knowledge,—except study and experience.

Books have been written which will help you to understand the methods of appraisal procedure,—but the how and when to apply the methods, must be based upon sound judgment. Sound judgment—just applied good common sense.

The appraisal mistakes of the past are with us today. . . . The appraisal mistakes by the unskilled appraiser of today will plague the real estate profession tomorrow.

No, not everybody can appraise a house!!

Appraisals for Long Term Mortgage Loans

By HORACE RUSSELL

PROBABLY no problem confronting the American people today is more important than that of real estate appraisal. No greater responsibility rests upon any profession or group of our people than that resting upon the real estate appraisers at this time. I think men realize that the foundation of all wealth is real estate. Homes have intrinsic value which is not controlled by the jiggling of the market as the price of potatoes is sometimes determined. Homes are not built in a day and money necessary to produce a house is not made available in a day or a month or a year. Too much attention has been given to so-called market value in appraising real estate, and too little attention has been paid to the fair worth of such property. I wish to give special attention to these questions.

It is said that more than twenty billion dollars is owing by American home owners on their homes, and these debts are family funded debts, which however written must be paid off, if paid at all, over a period of years from income in nearly all cases. A recent survey indicated that insurance companies held more than two billion dollars of this debt, and savings banks held more than three billions dollars of it, and savings and loan associations held more than six billion dollars of it, and a total of about twelve billion dollars of it was held by these three classes of institutions. It is a high tribute to the real estate appraisers of America that these loans held by these great thrift institutions of our country have stood up better than any other securities except government bonds. I congratulate the appraisers of the country upon the sagacity of the past, and I congratulate the appraisers of the country upon the most careful and thorough study of appraisals of the present. Losses to savers in the classes of savings institutions I have referred to as a result of our home mortgage lending has been almost nil. We have every reason to reconsecrate our faith in real estate as security, and particularly in homes as security for loans. There has been some panic in some quarters in real estate appraisal. Some have tried to appraise the market value of property when there was no market. It behooves those who love their country, who believe in home ownership and its value to our people, and who believe in real estate value, and indeed, all of us, to restudy the appraisal of homes.

Most of the trouble of the past in home mortgage lending arose in spite of the appraiser and resulted from shortsightedness of financiers. It was extremely absurd for an intelligent banker or other lender to permit his borrower to execute a loan contract which he knew and which his borrower knew could not be fulfilled according to its terms; and yet this was done when the straight, three-year or five-year mortgage loan was executed on the average American home. No such family ever has such a sum of money at one time, and yet such families can pay off such sums over a reasonable period of years. It was equally

---

Mr. Russell, in this address made at the New York Chapter Banquet on December 8, 1934, presents an interesting thesis for appraisal of "homes" for long term loans. If adopted literally the usual difficulties of the appraiser in weighing and valuing "amenites" would be still further complicated by the necessity of appraising, in addition, the integrity of the borrower as well as his prospects for continued health and prosperity. This done, there would still be required an appraisal of the "loan" which the owner might have assumed against the property whereby its advantage or disadvantage for the future would be weighed.

Truly, this question of residential appraisals is getting a bit "thick." However, Mr. Russell presents some very pertinent points as seen from the "other side of the fence" that are intriguing and worthy of serious consideration.—Ed.

absurd for institutions having on hand demand funds to lend any substantial proportion of the same upon home mortgage loans whether such loans were written on short term or not for the reason that the borrower cannot pay such loans in lump sums. The chaos of the mortgage market is not due in any substantial measure to appraisal; it is due chiefly to the fact that demand money was loaned on mortgages and to the fact that mortgages were made which everyone knew could not be paid at maturity.

A new study is being made of home mortgage lending and that is why you asked me to discuss appraisals for long term home mortgage loans. For a hundred years we have had experience with monthly amortized home mortgage loans over a long period of years and with other types of home mortgage loans and every thinking man now agrees that the typical American home mortgage loan ought to be a monthly-amortized, long term, home mortgage loan which may be paid off, both principal and interest, from the income of the borrower, over the period for which it is written. Heretofore it has taken families from ten to twenty years to retire the financing of their homes when financed at 50% to 75% of value. The present vogue in home mortgage lending is to recognize this simple fact and to write the loan contract accordingly so that neither the borrower nor the lender finds himself in a pinch. Heretofore, appraisal in some quarters has been an effort to arrive at market value. For long term home mortgage lending, appraisal should be more nearly an effort to arrive at fair worth.

May I introduce to you a new element in appraisal, namely, the appraisal of the borrower. Appraisers may not consider that it is their responsibility to appraise the borrower. They may feel that such is the task of management. Let us be reminded, however, that if the loan is good and pays out, the appraiser is in no trouble; but if the loan is not good and does not pay out, the employer of the appraiser is not satisfied. In the process of long term home mortgage lending, therefore, it is essential that the individual applicant, his character, his resources, his obligations, and his ability to pay, be appraised. If appraisers do not make such appraisal, then it is clear that management must. In the case of home mortgage lending, if the appraisal of the individual applicant is sound, then mistakes in appraisal of the property will seldom show up.

For long term home mortgage lending it is important that particular consideration be given, not only to the reproduction cost of the property, less depreciation including obsolescence, but also the future of the neighborhood, the suitability of the premises for a home at the time of appraisal and throughout a reasonable number of years to come; and, of course, some weight must be given to selling price, especially as such prices reflect the public attitude toward the particular neighborhood and the particular type of property appraised.

And, may I now introduce to you what I conceive to be another element which has heretofore not been sufficiently considered, namely, the type of financing proposed on the property in question.

Let me illustrate the importance of this last-mentioned element of value. Let us suppose today two properly constructed homes in an ideal neighborhood, suited to the market, and in all respects marketable as homes and of equal intrinsic worth. One of such houses is, at the time of appraisal, encumbered up to 80% of its value by a Home Owners' Loan Corporation fifteen-year, five percent, monthly amortized loan, any portion of which may be paid off at any time. The other is encum-

bered with an equivalent debt bearing interest at the rate of six per cent per annum and coming due in a lump sum in ninety days and held by a mortgage company in liquidation. Suppose these two houses are listed the same day with a responsible real estate broker, would they be worth the same amount under the circumstances, or would they have different values?

What I am suggesting is that in the ultimate, for sound appraisal we must give attention:

1. To an appraisal of the individual applicant.
2. To the usual elements involved in an appraisal of the real estate.
3. To the type of financing being placed on such real estate.

If, in our study of the applicant we find that he cannot possibly pay the debt he is about to contract, then if we want to keep out of trouble, it would be wise to make an adverse report on this phase of the appraisal. If, as we appraise the property we find that it is located in an area which is going backward as home property, or that it is of a type of construction which is obsolete, or if we find other factors which are detrimental to the property, we must write the appraisal down accordingly if we would keep out of trouble. If we find that the debt about to be contracted is one which is not only within the ability of the borrower to repay, but is also one which purchasers of the property might be expected to be able to carry, then this element of the appraisal will be favorable. But, if the debt about to be contracted is within the means of the borrower, but is on terms which cannot be met and which a prospective purchaser would not in all probability be able to meet, then we would be compelled, if we would avoid trouble, to make an adverse report on this element of the appraisal.

Real estate has been for a long time the fundamental thing of value in all civilizations. Home financing has created the largest single block of private debt in the United States, much greater than all railroad financing, much greater than all public utility financing, and two and one-half times greater than all farm mortgage lending, and as I have said, has provided the safest of all securities except government bonds, and yet the people of the United States are not housed one-half as well as they deserve. Our country is able to afford houses in the aggregate worth twice as much as the present houses in which our people live. Our people have spent possibly too much for luxuries and incidental equipment and too little to provide that substantial comfort of a well built home. Too much is involved in the way our children grow up for us longer to neglect to provide adequate home shelter and surroundings for the coming generations. Probably our greatest mistake has been in getting away from home life too much. One of the best ways to improve home life is to improve homes and to make of the home the most attractive place for our young people as well as for our old people. Such things are coming and in the acquisition of such homes we will undoubtedly incur debts in the years to come twice as great in the aggregate as the home mortgage debt of today, and such debts must necessarily be carried over long terms of years so that the family may pay off the debt without undue burden, interest and principal, from the income of the family occupying the premises.

* * *

Court Decisions

Upset Price Appraisals

By Andrew C. Hamilton
Member of the Illinois Bar

THE impasse into which the reorganization of real estate security issues has drifted in some parts of the country, particularly in connection with the less productive properties, and the complaints of selfish or uninformed dissenters inflamed by a Congressional Committee and a few fee-hungry lawyers, has fostered a growing interest in plans of reorganization involving the old "upset price" theory. The use of an "upset price" in a reorganization means that a minimum sale value must be set upon the property involved—a value which in some degree should be based upon a competent appraisal of the property. This naturally means work for qualified real estate appraisers—a new type of work which may reach a considerable volume.

The practice of fixing an "upset" or minimum bid price at which property might be sold at a judicial sale originated in attempts by the courts to protect parties having an interest in the property subordinate to the lien foreclosed. The theory was that if a fair sale price was set it might be sufficient to leave something for the junior liens. The need for fixing a *minimum* bid or "upset price" arose from the established rule of most jurisdictions that a court will not withhold confirmation of a sale for inadequacy of price alone.

In time the establishment of an "upset price" became quite important in foreclosures involving reorganizations because the price would usually be the amount bid by the representatives of the reorganization committee. It would, therefore, become not the means of protecting subordinate lien holders, but rather the measure of the cash to be received by non-assenting holders of the securities of the class conducting the foreclosure. (The reorganization committee, if the successful bidder, will usually submit the securities on deposit with it in payment of that proportion of the bid price allocable to the deposited securities and will be compelled to pay *in cash* that proportion of the bid price allocable to the securities held by dissenters.)

In the majority of states, including nearly all of the western states, where, under pioneer conditions, it became necessary to guard a new settler from the results of a quick foreclosure of the mortgage on his land, statutes will be found providing that a foreclosure sale shall not be had until a certain redemption period has elapsed, or giving the mortgagor and the other creditors a right to redeem within a certain time after the sale.

Under both types of statutes the establishment of too high an "upset price" will discourage deposits of securities with the reorganization committee. If a creditor can secure approximately the same amount either in cash or in new reorganization securities of somewhat dubious marketability he will normally choose the cash; thereby the number of dissenters will be increased, and the problem of raising sufficient cash to pay off dissenters and finance the reorganization may often

prove insurmountable. There seems to be little merit in a reorganization which places upon the property the burden of expensive underwriting to provide a large amount of cash to satisfy the demands of the non-depositors who refuse to cooperate.

Under statutes which provide for a period of redemption after the sale there is a dilemma—the bid must not be too high or else the cost of paying off dissenters will be too burdensome—the bid must not be too low or the mortgagor or junior creditors may redeem from the sale and thus the return to the reorganization group be entirely inadequate and unfair. In such a situation the reorganization group will often acquire the redemption rights and thus be in a position to bid low without danger of redemption and likewise to pay off the dissenting minority at a relatively low cost.

That practice of course draws loud wails from the dissenters and their attorneys. Some courts, sensitive only to the voluble minority, have begun to refuse to confirm sales where the bid of the purchaser is not based upon and equal to or in excess of a predetermined "upset price."

In a few states an appraisal is required by the statute, in which event the decree may provide that no bid may be received for less than a certain percentage of the appraised value. However the right of appraisal may have been waived in the mortgage, and, if waived, neither the state nor federal court need enforce it. Many courts even then prefer to follow such a statute as a convenient way of meeting the question of what minimum bid will be confirmed by them.

Other state courts faced with the dilemma of attempting to be fair both to depositors and to dissenters have sought to declare by supplemental decree that the trust under the mortgage trust deed is an active trust; that the court through a competent appraiser shall fix an "upset price" or minimum bid at which the property may be sold; that if the "upset price" is not bid then the trustee may, or even must, bid in the property for the full amount of the indebtedness on behalf of all security holders, both depositors and dissenters. These courts seem to have had little regard for the complex legal perplexities with which the title to the property may then be burdened. At any event the need for fixing an "upset price" again appears.

What is this "upset price"? There is no well-defined rule. One theory has been that it is the price which will give dissenters a reasonable amount, although somewhat less than the actual value of the property. Another theory is that it should be the approximate true value. Perhaps the appraiser has done his duty when he has determined a present fair cash market value for the property. The fixing of the actual "upset price" must then be left to the logic or caprice of the judge. Knowing the problems involved the appraiser should not feel too slighted if little regard seems to have been paid to his carefully calculated valuation.

Comments and Discussion

Concept of Value

IN order to arrive at value to be expressed in dollars in any appraisal, it becomes necessary for the appraiser to formulate his own concept and then express it in clear and unmistakable language, so that any person seeing the appraisal may understand the appraisers' angle of approach or point of view.

I believe that the following expression is clear and conveys the thought intended in a large majority of cases referring to the property as a whole and the land in particular.

The normal market for the highest general use, or more definitely the amount a buyer or seller would be justified in giving or receiving for a property, is applicable to such property as Industrial, Warehouse, Steamship, Commercial, Mercantile, Apartment House, Residential, Farm, etc.

Railroad, Oil Stations, Utilities, Rights of Way, etc., are strictly special uses and may possess a value out of line with lands circumjacent thereto part of which may be franchise value. Such conditions should be noted if considered and reflected in an appraisal and appropriate references made thereto.

As land underlies all real property it has a value by itself which I can best define as follows:

Land value is *locality value* or the price a piece of property should bring at the date of appraisal in the position where located and nowhere else brought about by the development of the circumjacent territory of which it is an integral part and adds to or deducts from as the case may be.

That being the case I believe that the land value should first be determined and the value of the property as a whole, deducting the land value from the value of the whole will show the residual value of the improvements.

Otherwise we cannot avoid being placed in the illogical position of stating that the same area of similarly situated adjacent land has a different value.

The suitability to location and condition of an improvement, earning capacity as a whole, all affect and control their value.

However, a property should be analyzed, checked and compared with various other methods, differences weighed and reconciled by application of common sense, experience, and judgment.—By PERCY A. GADDIS, M. A. I., in *The Hudson County Realty Magazine.*

Professional Status of Real Estate Appraising

The Long Island REALTY MAGAZINE for March reports an address made by Frank A. Vanderlip, former president of the National City Bank and Assistant Secretary of the Treasury of the United States, at the initial meeting of the Joint Realty Appraisal Licensing Committee, of the State of New York. He discussed the financial and economic aspects to be weighed in evaluating under present-day conditions and the importance of the appraiser and his heightened responsibilities to the public. Appraisers throughout the country will be interested in his recognition of the professional status of real estate appraising.

"I understand that the pending bill to license appraisers, which is opposed by your joint bodies, is proposing that anybody who speaks the English language and has contacted real estate—that is to say,

has had his feet on the ground for three years—is qualified to be an appraiser. I do not believe that these are sufficient qualifications, any more than I would feel that they were sufficient qualifications for his being a doctor. I don't see why real estate appraising should not be a distinguished profession, and that it be made difficult to enter; that the incompetent and dishonest be kept out of the field of appraising; that it have a code of principles and a code of honor that would make men proud to belong to it.

"Now, that is not the business of the State Legislature, nor of the National Congress; it is the business of the *business people* who are concerned with the job. Who are they? It is obvious that they are, or hope to be, appraisers; but the interest is much wider than that—the people who act on the appraisal. For whom are you appraising? You are appraising for a seller or a buyer; you are appraising for an investor who may lend money. Somebody has got to appraise as a basis for taxation, and that person ought to be of the same type as the man who appraises for an inheritance tax. I think the man who appraises the valuation for inheritance tax purposes may have quite a different attitude than the man who appraises for a deficiency judgment, or for other reasons.

"It is perfectly obvious to me that this business of appraising real estate ought to be surrounded by a fence, difficult to get over; and the nature of that fence ought to be built by you men who are interested as active appraisers, or interested in other men's work as appraisers. Put your own house in order, for if you don't, it will be put in order by heedless legislation in all probability.

"Now, are you too busy to take the time? Most of you probably think so. Most any one of you, I believe, is liable to answer: 'In these days of the depression I have to hustle about so to make a living, and I have no time to devote to these public matters'; but, unless you do take time to devote to these public matters, you will have to hustle all the harder to make a still poorer living. Public matters have come to be fundamentally more important to us than our private matters, and we cannot afford to attend exclusively to the stuff on our desk. . .

"I should say that it was up to the appraisers, and still more, to the people who depend on these appraisals for business judgment, to improve the profession. . ."

REAL ESTATE OUTLOOK FOR 1935[1]

AMERICAN civilization and government have been tried in a crucible of fire these past five years. Most hopefully can we look to the future, so great has been the patience our people have shown, so great their capacity to absorb punishment. The era of reconstruction is at hand—past, let us hope, the panic and paralysis of fear that induced the "trial and error" system, the sending of ships to sea without a compass. Our ancestors molded a great nation by clear thinking on fundamentals, undaunted courage and resourcefulness in combating new conditions. Let us emulate them and rebuild out perished well-being.

The most vital of all problems before our nation today is the rehabilitation of real estate. It represents a major portion of our national wealth; activity in building construction our principal source of employment next to farming. The value of that investment must be stabilized if financial institutions are to endure and useful occupation in creating new wealth given our idle during this ensuing year,

1. This address was delivered by Pres. Schmidt at the Annual Banquet of Illinois Chapter No. 6 in Chicago on January 11, 1935.

if we are to avoid drastic social changes. The administration has recognized these facts. We, with our primary interest in the commodity of real estate, must consider ourselves their allies, appreciative of what has been done, cooperative and helpful in lending whatever we possess to the evolving of sound long term policies. Differences of opinion exist, and I feel we can and must, if we would be constructive, express them freely and frankly.

While it is not to be expected that the re-establishment of real estate credit will of itself restore activity, since business rather creates credit than credit business, yet without mortgage money real estate values cannot be maintained nor the base laid for revival. So the outlook for real estate and for our nation during the ensuing year is dependent on a satisfactory solution of the mortgage problem and the definitizing of the permanent position that government will hold in connection with the long-term credit structure.

It is the first function of government to protect the rights of the citizen, to protect him in the possession of his property, and by economic direction and helpfulness, provide opportunity whereby he may secure through his labors, a reasonable comfort of existance and security for his family's future. All sound governments have protected their currency and their credit systems as a means to this end. We in this country have been extremely backward in providing for the safety of our credit structure. It is only of recent years that short-term credit has had the benefit of the Federal Reserve System and not till after the collapse was serious attention bestowed on the banking system as a whole. Nothing was done as regards the long-term structure, of far greater magnitude and importance than the short term, until the National Association of Real Estate Boards initiated proposals some five years ago which resulted in the Home Loan Bank. Continuous activity resulted in the Home Owners Loan Corporation and later our insistence was no doubt responsible for the preparation of legislation creating the Federal Housing Corporation.

Using that frankness which it is our obligation to display, may I say that none of these agencies meet the situation as it should be met. We accepted them because they were steps to the goal. It is still our opinion, and I am convinced we are absolutely right, that the creation of a Central Bank of Discount is the one safe and fair method of meeting the problem. That Bank would function as a purchaser of sound mortgages from those desiring to dispose of them, and would sell its bonds to secure funds for such purchase. Those bonds would have to be sold at a sufficiently low interest yield to provide a proper differential between the mortgage rate and the bond interest.

The mere existence of such an agency even without its use, would operate to cause renewal of mortgage investment. In periods of stress, it would function more easily than in normal times, since under such conditions, its bonds as the ultimate in security would find ready market at low yields.

These are the proposals we make:

1st. Modify the Home Loan Bank Act, the function of which is to lend upon mortgages, so that it will embrace in its membership the mortgage lenders of the nation. At the present time due to restrictions on membership and undue cost of joining the system, it serves but a very small portion of the field.

2nd. As soon as feasible abandon the Home Owners Loan Corporation. The government has no place in the business of a direct mortgage lender to its people.

3rd. Remodel the Federal Housing Act in these respects.

A. Make the Insurance real insurance, either cash or debentures which are worth par when issued. A bond of the insurance corporation due three years after the maturity date of the mortgage bearing three percent interest and taxable

by State and Federal governments, may be worth much less than par when received. I question whether there will be wide purchase of insured mortgages as now constituted.

B. Make it possible for any one to own an insured mortgage provided it is serviced by an approved agency. Under the regulations just issued only state and federally inspected financial institutions can invest in an insured mortgage. The act itself and the regulations issued under it defeat the very purpose intended to be served, of creating fluidity in the flow of mortgage money.

C. Establish the Central Mortgage Bank outlined permitting it to function in all classes of property. It is futile to blink the fact, as Congress has, that the mortgage problem is an integrated one, and that housing loans are but a part of that problem. The National Mortgage Associations as authorized under the act will have difficulty in making their way and it is very doubtful whether under present requirements any great number of them will be started. It will be difficult to sell the bonds of these corporations at a sufficiently low rate to provide an adequate differential. I doubt whether private capital will invest in their stock in large measure.

The changes mentioned are not numerous or revolutionary. With them it would seem that government's part in the mortgage picture would be definitized, that investment would be thrown into its proper private channels, and that investors would again begin to see placement of their funds—with mortgage money ready, it would seem that we were on the verge of a real restoration and renewal of activity. Some dread the recommencement of building, on the ground that present facilities exceed the requirements. This may be true in regard to certain classes of space, but generally speaking, these facts stand out: there have been four years of practical stoppage of construction, years when the annual loss was far in excess of replacement; obsolescence has been at work, and despite rumors I understand there is definite population increase. It is remarkable how quickly vacancy can be absorbed under bettered conditions and a shortage developed. Twice has that occurred almost overnight in my short life-time.

In conclusion, may I say again we must hold to fundamental principles, recognize that governments are not the source of rights or of property, but exist to protect the rights of the citizen and the family; that our Declaration of Independence contains truths that are not outmoded, but merely obscured; that our ills are due not to the failure of old principles, but to the imperfections of human nature, to avarice and the greed of power, which have obscured, but not destroyed, virtues which the people of this nation hold dear to their hearts. As we enter this new era, let us not be captivated by strange and unusual doctrines, but progress by building on sound foundations.

—WALTER S. SCHMIDT, M.A.I., *President, National Association of Real Estate Boards.*

Chicago, Ill., Jan. 11, 1935.

* * *

AN APOLOGY

We regret that proper acknowledgment was omitted for the article entitled "Appraisal of Citrus Lands" by Leslie C. Nanney published in the January, 1935 issue of the *Journal of the American Institute of Real Estate Appraisers* to the previous publication of an outline by Mr. Nanney containing a considerable amount of the same material in *Condemnation Appraisal Procedure* by Peter Hanson and W. L. Pollard, published by Hanson and Pollard, Los Angeles, California. Price $7.50.

* * *

Rules of Professional Ethics

OF THE

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

(As amended Jan. 24, 1935)

ARTICLE I

Fees

SECTION 1. It is unethical for an appraiser to accept an order to appraise a property if his employment or fee is contingent upon his reporting a predetermined or specified amount of value, or is otherwise contingent upon any finding to be reported.

SECTION 2. It is unethical for an appraiser retained in cases where damages result from the exercise of the right of eminent domain, or result because of fraud, misrepresentation, etc., to make his compensation contingent upon the amount of, or to fix his compensation as a percentage of the damages which may be decreed by the Court deciding the issues in the case involved.

SECTION 3. It is unethical for an appraiser to accept an assignment to appraise a property when such assignment involves a bonus, a favor, or any special inducement other than a fair professional fee for the responsibility entailed and the work and expense involved. The schedule of charges for appraising adopted by the local member Real Estate Board is recognized as a proper standard of payment and should be followed. If there is no minimum fee established by the local Real Estate Board, the fee should be reasonable for service rendered and within the bounds of good business practice.

SECTION 4. It is unethical for a member to act for his clients in professional matters otherwise than as a faithful agent or trustee, or to accept any remuneration other than his stated charges for services rendered.

ARTICLE II

Commissions and Favors

SECTION 1. It is unethical for an appraiser to accept any commission, favor or emolument, in connection with the appraising of a property, other than a fair professional fee for the responsibility entailed and the work and expense involved.

ARTICLE III

Disinterested Appraisals

SECTION 1. It is unethical for an appraiser to issue an appraisal report if he is acting or intending to act in the capacity of broker, loan broker, or manager, or if he has an ownership, contemplated future ownership, or any other interest in connection with the property appraised, unless such interest or interests be fully disclosed in the appraisal certificate.

ARTICLE IV

Independent Appraisals

SECTION 1. It is unethical for appraisers who have been retained to make independent appraisals of a property to collaborate or consult with one another with reference to the appraisal, or to make use of the findings or figures developed or reported by any appraiser so retained.

SECTION 2. It is unethical for appraisers who have been retained to collaborate in the making of an appraisal to issue separate appraisal reports on the property appraised. They should sign a joint report, or if there be dissenting opinions these opinions should be stated in the report rather than separate documents apart from the report.

ARTICLE V

Hypothetical Appraisals

SECTION 1. It is unethical for an appraiser to issue an appraisal report on an investment construction project with such value predicted on assumed rentals and/or expenses at variance with the probable market at the time at which the reported value obtains.

SECTION 2. It is unethical for an appraiser to issue an appraisal report on an investment property based on an earning expectancy which does not *analyze* existing leases.

Existing leases, until their expirations may *apparently* increase or decrease the net earnings of the property above or below the net earnings which would be realized were the space rented at the market rates existent at the time the reported value obtains.

SECTION 3. It is unethical for an appraiser to issue an appraisal report in which the reported value is based on the completion of public or private improvements which are not assured unless he clearly states that the appraisal is made on that hypothesis. Provided that, in any event, he must state in his report the conditions with regard to such improvements which he assumes in determining the value reported.

SECTION 4. It is unethical for an appraiser to issue an appraisal report in which the reported value is based on the assumed absence of any legal restriction, unless such assumption is reasonable or in accord with legal opinion accepted by the appraiser, and unless the legal authority and his opinion are quoted in the appraisal certificate, and it is expressly stated that the appraisal is contingent on such lawful restriction being changed or absent in accordance with the assumption.

ARTICLE VI

Fractional Appraisals

SECTION 1. It is unethical for an appraiser to issue an appraisal report on a fractional part of a property unless he specifically states that the value reported is invalidated if used in making a summation appraisal of the property as a whole.

SECTION 2. In appraising the security for a loan it is unethical for an appraiser to issue a certificate covering anything less than all of the property designated as security for the loan.

SECTION 3. In particular, in appraising the security for a leasehold loan, it is unethical for an appraiser to issue a certificate of value of the improvement only, omitting the value of the leasehold, which latter may be positive, zero, or negative.

SECTION 4. It is unethical for an appraiser to issue an appraisal report on a property in which the total reported value is derived by adding together the values of fractional parts of the property unless it is shown that no incompatible conditions were assumed in making the fractional appraisals.

ARTICLE VII

Summation Appraisals

SECTION 1. In particular, in appraising the security for a loan, it is unethical for an appraiser to issue an appraisal report on a property in which the total reported value is derived by adding together the market value of the land, (or leasehold) as if unimproved, or the value of the land (or leasehold) as if improved to the highest and best use, and the reproduction cost of the improvements less accrued structural depreciation, unless other and conclusive evidence is given that this result equals the total value of the property considered as a unit.

ARTICLE VIII

Economic Probabilities and Value of Investment Property

SECTION 1. It is unethical for an appraiser to issue an appraisal report on an investment construction project and report such value as of normal occupancy without also reporting the assumed date of normal occupancy and his estimate of net earnings or deficits during the period from completion to normal occupancy.

SECTION 2. If the value reported is the value which in the opinion of the appraiser will prevail when normal occupancy is attained, it is unethical for the appraiser to report the value as of any other than the date when it is assumed such normal occupancy will have been attained.

SECTION 3. It is unethical for an appraiser to issue an appraisal report on an investment construction project which does not give the appraiser's opinion on the economic soundness of the project, as measured by the difference between the estimated net cost up to the completion and the value at completion.

SECTION 4. It is unethical for an appraiser to issue an appraisal report on an investment construction project without also reporting his estimate of the reasonably expected earnings of the project upon completion as well as upon attaining the assumed normal average occupancy.

ARTICLE IX

Duty to Hold Findings Confidential

SECTION 1. It is the duty of an appraiser to hold as confidential the fact that he has been employed to make an appraisal, his results and other findings, until released from his obligation by the client or by due process of law.

ARTICLE X

Expert Testimony

SECTION 1. In giving testimony as to the value of real property in any court or before any other legally constituted tribunal an appraiser may follow rules of procedure as to appraisal method legally binding in that jurisdiction even though such rules may be at variance with the provisions of these standards.

ARTICLE XI

Contents of Appraisal Certificates

SECTION 1. It is unethical for an appraiser to omit any of the following from his appraisal certificate.

A. An unequivocal and reasonably complete description of the property appraised.

B. A statement of any contingent conditions upon which this appraisal has been based. For example: (a) the validity of legal, engineering, or auditing opinions used; (b) the completion of projected public or private improvements, (c) that the management will be competent and the ownership be in competent hands.

C. A statement classifying the property appraised as an investment property, a noninvestment property, or a service property.

D. The date or time at which the value obtains.

E. The amount of the value.

F. A statement that the undersigned appraiser has no present or contemplated future interest in the property appraised; or a statement disclosing all such interests which the undersigned appraiser may have in the property appraised.

G. In case the property appraised is a fractional part of the property of a type covered by these Standards of Practice, a statement that the value reported is invalidated if

used in making a summation appraisal of the property as a whole.

H. A CERTIFICATE, substantially in the following form:

I, (WE) the undersigned do hereby certify that to the best of my (our) knowledge and belief the statements and opinions contained in this appraisal certificate, subject to the limiting conditions herein set forth, are correct: also, that this appraisal has been made in conformity with the Standards of Practice of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards.

I. A statement that the appraiser's employment is not contingent upon the amount of the value reported, and (in the event the appraisal is used in cases of litigation involving the fixing of damages caused by exercise of the power of eminent domain, or in cases involving damages because of fraud, misrepresentation, etc.) is not contingent upon the amount of damages awarded by arbitrators or thru judicial decree.

ARTICLE XII

Advertising

SECTION 1. It is unethical for a Member of the Institute to advertise his professional attainments or services thru the mails, in the public print, by circular letters, bill boards, or window advertising, or by any other written word except that a Member may cause to be published in the public press what is technically known as a "card."

A card is hereby defined as an advertisement of the name, professional titles including M.A.I., (Member of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards) class of service, address of the advertiser, without any other qualifying word or letters or, in the case of announcement of change of address, the plain statement of the fact for the publication of which the announcement purports to be made.

Cards permitted by this rule when appearing in newspapers shall not exceed two columns in width and three inches in depth; when appearing in magazines, directories and similar publications, cards shall not exceed one-fourth page in size. This rule shall not be construed to inhibit the proper and professional dissemination of impersonal information among Member's own clients or personal associates or the properly restricted circulation of bulletins containing professional information.

SECTION 2. It is ethical, however, for an appraiser of the Institute to carry an announcement in the classified telephone directory as follows: "JOHN DOE—M.A.I., Address, Telephone Number" under the subdivision REAL ESTATE APPRAISALS.

ARTICLE XIII

Relations with the Institute and Fellow Members

SECTION 1. No member shall conduct himself in such a manner as to prejudice his professional status or the reputation of the Institute.

SECTION 2. Any oral or written statement by a member with reference to his affiliation with the Institute that is not specific and exact shall be construed to be professional misconduct under Article VI, Section 2 of the By-Laws, and subject to immediate disciplinary action.

SECTION 3. It is unethical for a member to use the advantages of a salaried position to compete unfairly with other members of the Institute.

SECTION 4. It is unethical for a member to injure falsely or maliciously, directly or indirectly, the professional reputation, prospects, or business of another member.

SECTION 5. It is unethical for a member to attempt to supplant another member after definite steps have been taken toward his employment.

SECTION 6. It is unethical for a member to compete with another member on the basis of professional charges by reducing his usual charges and in this manner attempting to underbid after having been informed of the charges named by the other member.

♣ ♣ ♣

Current Articles

Actual Appraisal Reports. Valuation of Leasehold Estate Improved with an Apartment House, Store and Office Building, and Theater. Mark Levy. N. R. E. J. December, 1934, p. 42. $1.20. The President of Illinois Chapter No. 6 of the American Institute of Real Estate Appraisers contributes a valuable report.

Appraisal of Slum Districts for Federal Housing Projects. M. J. Rudolph. N. R. E. J. February, 1935, p. 39. $1.20. "The purpose for which an appraisal is to be used should carry no weight in the mind of the Appraiser."

Appraising for Condemnation. E. H. Lyons. R. E. December 22, 1934, p. 12, and December 29, 1934, p. 9. $0.30 each. Of particular interest at this time while the Federal Government is assembling large parcels of land for its housing projects.

A Building Manager's Analysis of Tax Valuations. C. E. Doty. B. & B. M. March, 1935, p. 34. $0.45. Based on a brief prepared for the Auditor of Cuyahoga County, Ohio.

Building Obsolescence and Depreciation. P. E. Holcombe. R. E. R. March 16, 1935, p. 9. $0.70. Instigated by a new ruling by the Commissioner of Internal Revenue.

Building Production and Standards. K. Lönberg-Holm and C. T. Larson. R. E. R. February 16, 1935, p. 19. $0.70. An analysis of the time-zoning of buildings.

Business Property Obsolescence. A. F. Schnell. S. M. January, 1935, p. 8. $0.45. The shifting of residential values will slowly be reflected in reduced office rental income.

Demonstration Appraisal of a Residence Property. F. E. Smith. N. R. E. J. March, 1935, p. 46. $0.70. A statement of theory followed by its practical application and closing with a demonstration appraisal of a typical house.

For Better Home Appraising. P. B. Russell. R. E. March 9, 1935, p. 10. $0.30. The aims of the new Society of Residential Appraisers formed under the wing of the United States Building & Loan League.

Frank A. Vanderlip Discusses Financial Aspects of Appraising. D. E. McAvoy. L. I. R. M. March, 1935, p. 10. $0.45. A discussion of the financial and economic aspects to be weighed in evaluating under present-day conditions, the importance of the appraiser, and his heightened responsibilities to the public.

Gold Profits versus the Banks—a Major Problem. W. E. Lagerquist. E. March 15, 1935, p. 4. $0.30. Major thesis—the ultimate test of the gold problem is still ahead of us.

H. O. L. C. Appraisal Formula Sound. C. E. Reeves. R. P. March, 1935, p. 25. $0.40. Mr. Reeves, a member of the American Institute of Real Estate Appraisers, is now Chief Appraiser for Home Owners' Loan Corporation.

Real Estate Appraisals in the Post-depression Era. R. L. Hoguet. R. & B. G. December 22, 1934, p. 5. $0.70. Mr. Hoguet is First Vice President, Emigrant Industrial Savings Bank.

Relation of Appraisal to Long Term Mortgage Loans. Horace Russell. R. & B. G. December 29, 1934, p. 6. $0.70. Mr. Russell is General Counsel, Federal Home Loan Bank Board.

Rental Appraisals in Class "A" Buildings. E. L. Somerville. S. M. December, 1934, p. 8. $0.45. Present conditions emphasize the importance and necessity of making rental appraisals.

Restoration of Real Estate Values by Banking Aid. J. H. Jones. R. & B. G. December 22, 1934, p. 9. $0.70. An address before the Bond Club at the Bankers Club by the Chairman of the R. F. C.

Should Unsold Lots Be Assessed at Wholesale or Retail Values? F. K. Hamilton. N. R. E. J. February, 1935, p. 50. $1.20. "The unsold portions in the hands of the subdivider are neither subdivided lands nor acreage, but are in a state of transition or process of manufacture."

The System of Appraising under the Housing Act. J. H. Ardrey. N. R. E. J. January, 1935, p. 21. $1.20. Address before the New York Chapter, American Institute of Real Estate Appraisers, December 8, 1934.

Valuation and Risk Rating. F. M. Babcock. R. E. January 19, 1935, p. 10. $0.30. Risk rating as developed here will undoubtedly grow in use in the mortgage business.

Value of the Service and Public Utility Rates. C. O. Fisher. J. L. E. February, 1935, p. 76. $1.45. The depression has given renewed emphasis to the value of the service performed as a measure in public utility rate-making.

What Do Slums Cost? W. S. Parker. A. R. February, 1935, p. 75. $0.70. Facts uncovered in a Boston survey.

What's Wrong with Percentage Leases? K. L. Hyder. R. E. R. February 16, 1935, p. 24. $0.70. An interesting article by a member of The American Institute of Real Estate Appraisers.

The full names of the magazines indicated by initials on these pages are given below:

A. R.	Architectural Record	Monthly
B. & B. M.	Buildings & Building Management	Monthly
E.	The Economist	Weekly
J. L. E.	Journal of Land and Public Utility Economics	Quarterly
L. I. R. M.	Long Island Realty Magazine	Monthly
N. R. E. J.	National Real Estate Journal	Monthly
R. E.	Real Estate	Weekly
R. & B. G.	Real Estate Record and Builders Guide	Weekly
R. E. R.	Real Estate Record	Weekly
R. P.	Real Property	Monthly
S. M.	Skyscraper Management	Monthly

Copies of the magazines in which these articles appear may be secured from the Library of the National Association of Real Estate Boards, 59 E. Van Buren St., Chicago, Ill. The price listed includes the price of the magazine and a small service charge for mailing and postage. Subscriptions may also be placed with the National Association.

Book Reviews

Clark, John Maurice. STRATEGIC FACTORS IN BUSINESS CYCLES. National Bureau of Economic Research in Cooperation with the Committee on Recent Economic Changes,, 1934 (Volume 24 of the publications of the National Bureau of Economic Research), 238 pp. $1.50.

The Committee on Recent Economic Changes sponsored a special study to endeavor to disclose, so far as possible, what factors play an active part in throwing the economic mechanism out of balance. Dr. Clark, who was a regular attendant at the meetings of this committee, has endeavored to isolate those factors which are strategic from the standpoint of being susceptible to conscious control by the community.

The book seems to have been written primarily for the student of business cycles rather than for the business man without economic and statistical training.

Several sections of this book deal with various phases of the construction cycle, but unfortunately they are based on periods of time too short, in view of the great length of this cycle, to form a basis for deductions of any great value. The writer speaks of the five cycles of residential contracts awarded from 1915 to 1931. While we are willing to concede a short cyclical movement in construction, this is so overbalanced by the major cycles of from fifteen to eighteen years duration that it is hardly worthy of mention. These major construction cycles in their effect on the general business cycle are not treated in this book.

Many of the "strategic factors" which Dr. Clark points out in this book can be controlled only, as he admits, "by difficult and far-reaching measures —measures which we do not seem to be prepared at present to take." Others are more susceptible to some limited control.

The appraiser, it seems, would be interested in this book only if he were primarily interested and trained in the theoretical study of business fluctuations.

ROY WENZLICK.

St. Louis, Missouri, March, 1935.

Boeckh, E. H. BOECKH'S MANUAL OF APPRAISALS. Indianapolis, Ind. The Rough Note Company, Inc., 1934. 271 pp. $5.00.

"Once in a blue moon" a technical work is published that justifies its advance notices. Such a rarity is found in BOECKH'S MANUAL OF APPRAISALS, by E. H. Boeckh. It has been said that no movement may reach success and no civilization achieve real power and permanence until and unless accompanied by the development of a contemporary literature. The appraisal profession has been slow to meet this qualification, but the past several years have witnessed some definite writings along lines that promise much for the future. Major Boeckh and his associates, to whom he accords recognition in his book, have unquestionably brought forth a valuable contribution that should be of academic interest at least to all appraisers and perhaps of practical utility as applied to many appraisal problems.

The work has a definite pretention to something more than a book. In fact Major Boeckh goes the whole way and actually presents what in substance amounts to a formula or system for the appraisal of real estate—whether at the present, or as of any future date, and in any locality. This search for a "universal" appraisal system has been the goal of many others and will no doubt find its place in the years to come with the historical attempts in other fields of endeavor toward the search for the unattainable.

The book is arranged in three parts: the first, concerning the appraisal of buildings upon the reproductive cost basis to which about two-thirds of the entire text is devoted; the second, discussing briefly certain concepts and principles applicable to the appraisal of realty by the "Income" and other methods; and the third, devoted to Land Valuation. There is included an Appendix comprising building nomenclature and construction requirements or specifications covering details of particular interest to the building inspector and estimator. It is impractical to discuss at any length the substance of the entire book, but some comments upon the subject matter may be enlightening.

Part I, entitled "Building Appraisal—Reproduction Cost Basis," constitutes the principal portion of the "Manual" and is devoted primarily to the setting up of cubic foot costs on many different types of buildings from a small frame dwelling to an office building. Each type is illustrated and accompanied with a condensed specification of the usual materials of construction. The table of unit cubic foot costs is given for each type for varying sizes and "bases," together with "corrective factors,"—the unit costs being stated in terms of "Boeckh's Index No. 100." This base of "100" is explained as reflecting the average of prices in the United States for the years 1926-1929. It is stated that the formula is developed from the use of *ten* factors of labor and materials (nine are given in the list), such factors being given; but the "formula" itself, that is, the "weighting" of the various factors, is not disclosed. The factors include common brick, lumber, cement, steel, common labor, brick mason, carpenter, structural iron worker, and plasterer. It is noted that no factor of either material or labor involved in mechanical systems or equipment is included. This is a basic error frequently found in index number computations. In the absence of an explanation of the formula itself we can only surmise that some justification must have been found for the exclusion, but the thought is hardly tenable.

From this point on the "System" is designed to tie in with the "Manual" proper. This consists of an "appraisal report" form for the inventory of the property by the inspector, which is similar to many other forms for the listing of buildings but provides a column for "correction" to base unit costs and ultimately develops the cost of reproduction new at the index "100." Supplemental "Bulletins" are supplied to show the index number up

to and including August, 1934, for sixteen different sections of the country and for various types of buildings. It is stated that bulletins will be issued to keep the data up to date. Furthermore, a special service is offered whereby current "Boeckh's Index Control" numbers will be furnished to anyone merely by filling in the prevailing price of labor and material for his city upon the form provided.

This entire system appears to be the most complete of the "cubic foot price" derivations that have been developed. Assuming the accuracy of the underlying formula which constitutes the "unknown" from the standpoint of the user of the service, it would appear that the system would have real utility and merit for use by assessors and insurance adjusters. A chapter is devoted to "Depreciation and Obsolescence" and contains well selected and arranged "life" tables as well as interesting and pertinent comments on the subject of depreciation in general.

Part 2, "Realty Appraisals—Other Methods," has been reviewed with some measure of understanding of the problem that Major Boeckh faced in setting up obsolescence on the Income Analysis Method. All appraisers will sympathize with him and then probably go ahead and independently work out each appraisal as it comes along. There appears to be nothing new in this "Part." Some discussion is given on the "Variable Dollar" theory, and there is an interesting breakdown of the components of value in an improved property.

Part 3, "Land Valuations," is a little difficult to follow intelligently. The usual "classification" of lands as "business," "industrial," "residential," and "farm" is first presented, but the subject matter appears to deal entirely with "business" and "residential," particularly the latter. Some underlying "rule-of-thumb" standards for land values in relation to gross income are introduced and a table of "dollar value" conversions is given for the years 1913-1934. It is assumed that this is intended for use in relating a sale of a past date to the present. Since this is only one of the many elements that may influence the use of such a sale in comparing with a parcel being currently appraised, one is inclined to give little weight to this portion of the "Manual."

The most interesting tabulations are found in the numerous "plus and minus" percentages suggested for the various factors and influences affecting the value of business and residential property. For example, Major Boeckh gives definite percentage increments for the relative widths of streets, type of paving, sidewalks, lighting, sewers, gas, water, etc. Again, however, we are inclined to believe that under his own system, the sales comparisons adopted very probably and automatically embraced such differentials. It is a real pleasure, nevertheless, to find a student of valuation willing to go on record as to definite percentages to be allowed for specific advantages or disadvantages. If others who can speak with the same measure of authority would do the same thing, there is a better prospect of developing some uniformity of thinking at least, if not an all inclusive standard of valuation.

This review is offered with apologies to Major Boeckh and his associates. It has not been possible to cover properly and intelligently the many phases embraced in the "Manual" and the related service plan or system within the limits of this discussion. As a whole it seems regrettable that the book was not limited to "Part 1." This section appears to be so much more thoroughly developed. It is susceptible to practical application in many everyday building appraisal problems. The appraisal of land and the questions of economics relating to the actual valuation of real estate are hardly adaptable to mathematical derivation. If presented in a separate work, the theories and conclusions would be of merit and a real addition to the growing appraisal literature. In conclusion, it is believed that every appraiser should have a copy of the "Manual" in his library, whether or not he may subscribe to the "System" itself.

K. LEE HYDER, M. A. I.

Milwaukee, Wisconsin, December, 1934.

Anderson, M. D. CAPITAL AND INTEREST. Chicago: Business Publications Co. 1934. 196 pp. $2.50.

This book of 12 chapters and 196 pages is one which cannot be read in a few hours or even days. It was not written for the lay reader and can only be read with a good dictionary handy and must be perused carefully.

In the first chapter "The Nature of the Problem," the author divides economists of the past into two major groups—the "laissez faire" group and those who believe in complete governmental control. He proposes a new middle of the road policy in economics which at the present time, he says, does not exist as far as working out a complete system, policy, or platform is concerned. He states that this book does not give a complete system but only a solution to the "Capital Interest" problem which he calls the "crux or nucleus of any system." His system is developed in an orderly fashion; but, in my opinion, not logically.

Ideas change slowly. Aristotle, 300 years before Christ, thought that "taking" or charging interest for the use of money was debasing, as did all the then aristocratic classes; but they all thought that slavery was natural and desirable. These ideas were exactly reversed two thousand years later. This he explains as a "correlative result of evolution in the technique of growing rich." The Ancient Greeks grew rich by the conquests of their armies who left their slaves at home to do the work. Later slavery became less profitable than free labor with an "interest taking" organization and greater wealth was obtainable by this method, so slavery became disreputable and interest charging highly desirable.

The middle of the road group he proposes will be the friend of neither of the two present classifications of economists and the enemy of both. The conclusions arrived at will be ignored as they have no strategic value to either side. In short their position will be comparable to the well intentioned arbitrator in a family fight.

In the second chapter "The Capital Concept" he splits hairs so finely that it is hard to follow his reasoning but he finally arrives at the conclusion that all goods are both production goods and consumption goods and that it is impossible to set up

a categorical difference between them and that capital includes land and labor—that is capital is wealth. He says the economic struggle is *not* between Capital and Labor but between little capitalists and big capitalists.

In Chapter III, "Production, Consumption and Net Income," he defines production as the "transformation of goods and services into other goods and services" and measures it in money *of a stable purchasing power*. He says production does not exceed consumption, as the orthodox conception expresses, but that goods simply lose their identity in the process of transformation and those consumed emerge later as production goods.

He believes the trend must always be upward and that following a depression when production decreases there must be a period of even greater production, "otherwise capitalism totters on its foundation as there will be nothing with which to pay interest" and says "Net income is the increase per year in production per year."

Chapter V deals with the operation of commercial banks, method of expanding, bank deposits, and the governmental limitations.

In Chapter VI he begins the drawing together and coordination of the things previously discussed to form his new proposed economic thought. The average contractual rate of interest tends to equal the economic rate adjusted for price level changes; which, according to his theory, is the same thing as the percentage rate of increase of the money value of production unadjusted for price level variations.

With most things the greater the supply, the lower the price, other things being equal; but this is not the case with respect to bank funds for the more the banks lend, the greater the tendency of the price level to rise and the greater becomes the monetary net income from Capital. Banks do not especially think of the contractual rate they are getting as they lend to all they can, with safety, and this is decided by the condition of their cash reserve—the amount of it, and its efficiency. This efficiency creates the money they have to lend. This is not true of private loans where the contractual rate is the deciding factor. Supply and demand adjust themselves to it.

He says interest is a product of both labor and commodities because every dollar, in a substantial amount, is a part of the product of someone's labor.

In the next chapter he shows deviations from the long run tendency, and in Chapter VIII is a criticism of Competing Doctrines in which is pointed out what he considers their fallacies. Chapter IX and X and XI are involved mathematical theorems going into differential and integral calculus and can be understood but by very few.

The last chapter proposes a program of public policy—should banking be private or governmental?

He says an accountant must have a C. P. A., a high school teacher an M. A., a doctor an M. D., and a college professor a Ph. D. to guarantee their ability to provide the public with their respective services. These require arduous training—What standards of proficiency are maintained by bankers? NONE WHATEVER and he states that it is hard to believe governmental management of credit could be any worse than the sort of management received at the hands of bankers since the World War.

The only reason for seeking a bank loan is because the borrower's credit is less generally acceptable than the banks. When a bank makes a loan it simply "swaps" its credit for that of the borrower and the latter pays a premium for this.

The Federal Government credit is better than that of the largest banks so why should it borrow from the banks—swap its credit at a discount. The privately owned banking system creates deman obligations against itself which are never paid off. Why should the government not do likewise and save the interest charges? The government pays one-half billion dollars per year in interest. Another reason for governmental banking is the possibility of controlling business fluctuations.

The so-called orthodox economists divide the factors in production into four heads—(1) land or nature, (2) man or labor, (3) capital, and (4) organization. These, in the ultimate, can also be resolved back into land and man, as capital and organization are in reality a product of these two.

The decline in the internal prices of all countries followed the decline in prices of goods entering into international trade and this in turn followed the loss of gold by the debtor nations. The wholesale price level of the U. S. plotted against the gold holdings of debtor nations since 1925 shows a correlation (with a time lag) of 97%. Platting the same items of all nations the degree of correlation is 99.8%—nearly perfect. This would seem to indicate that at any point in time the quantity of gold held by debtor nations is the effective quantity which influences the price level throughout the world and that the price level of the world rises and falls with it.

Aside from the fact that the author starts with faulty premises and hence cannot arrive at a correct answer, the book is very well written and the exposition excellent. It would be much more readable if more common terms were used.

A. L. LAYDEN, M. A. I.

Los Angeles, California, Nov. 26, 1934.

Schmutz, George L. APPRAISER'S INTEREST TABLES AND THEIR USES. Los Angeles, Calif. Author. 47 pp. $1.00.

Did you ever think that sometimes you would assemble the tables you most frequently use into a book of your own? Many a time I have had the thought and put it away as something to do when leisure permits and in the meanwhile I use one book of computation tables and then another and frequently use several during one appraisal job. The lack of a handy book containing the tables I most frequently use has irked me, but no more I think than the annoying fact that the books generally used were prepared for other purposes so that the arrangements are inconvenient and the illustrative problems so foreign to our work that they are difficult to transpose into either similar problems or terminology.

A member of our Institute in Los Angeles not

only found the same annoyances in the general run of his appraisal work but found it aggravated by the absence of a suitable book of tables to use as text in the classes which he conducts at the University of Southern California. And being that peculiar type of person combining the traits of a Californian and those of a Realtor, he could not do as we Ohioans so easily can—push the matter aside for a rainy day—because neither his business habits nor the California rules of conduct will permit him to think there will be any rainy days, so he put together into a handy book the tables he finds of most helpful use.

It is a little book of only 47 pages, into which he has rather ingeniously arranged thirteen tables covering various calculations—or rather factors for the calculation—of Present Worth, Amortization, Future Worth, Sinking Funds and Compound Interest. The tables occupy only 15 pages and are followed by 24 pages of discussions and illustrative problems written in a rather easy way which is much more understandable by those of us whose class room days are becoming forgotten memories, than are many of the texts written by the scholarly mathematicians who are the authors of most of such books.

For my own purposes there are a few other tables I would like included but no doubt each of us has his own idiosyncrasies. At first glance I did not recognize the application to my local problems of some of the author's terminology but his style is so easily read (which is not true of many mathematical books) that I promptly found it easy to adjust his terms to what are probably habits of language local to my section. As we seem to differ somewhat in various sections of the country in our use of business terms, I fancy that any such book would use language a trifle strange to some of us, but Mr. Schmutz compensates that by his easy style and vivid illustrative problems.

It is an extremely handy book to have in the desk and small enough to carry in one's brief case. It is cheap enough so that, even in these days, the appraiser who takes his problems home can afford an extra one for there.

It is pleasing and encouraging to see practical contributions to our working tools coming from our Institute members. To me it is particularly refreshing to see them so clearly presented, with modesty and without trying to answer from one's personal experience most of the problems which may arise in the broad field of appraisal work. Frankly, I like Mr. Schumutz' approach. Probably I am biased by the fact that he has actually done something which I have frequently thought of but have been too lazy to do for myself. Now I have the tools he built and can still be lazy—or even more so.

RAYMOND T. CRAGIN, M.A.I.

Cleveland, Ohio, March 12, 1935.

Rufener, Louis A. MONEY AND BANKING IN THE UNITED STATES. New York. Houghton Mifflin Co. 1934. 788 pp. $3.50.

The appraiser of real estate does not need to qualify as an economist or banker; but he should know the fundamentals of the work of each. Many appraisers if asked a simple or academic question as to the character of our monetary system would probably give an answer that would be woefully incomplete or indicate ignorance of this important subject. There still is no royal road to learning, but in Professor Louis A. Rufener's book on Money and Banking in the United States a timely, authoritative, easy-to-read book, interesting information is available that should be read studiously by every appraiser. In a clear cogent manner, with the early months of 1929 as an immediate background, the causes of the economic disaster are traced, those of domestic origin, to the defects in management of our banking system, and those of foreign origin, to the mismanagement of the currency and banking systems of foreign governments during and after the World War. The writer uses a historical approach in showing the principles of money and banking as developed in the currency and banking system of the United States, beginning with our monetary system and the functions and quality of money. Through a preliminary study of fundamentals, one is quickly made acquainted with the qualities of gold and silver by a thorough exposition of bimetallism. Here one learns that this subject, viewed as an academic one for many preceding years, has been an issue in this country since its independence and that passivity during the last thirty years has not lessened one iota the insistence of bimetallism champions that low prices are the result of a scarcity of money and with more money available prices would be higher, incomes greater, and the burden of taxes less. Bringing this happy state of affairs through legislative mandate as to the ratio of silver to gold is not original in the Inflation Bill of 1933 but has precedents in the acts of the colonies since their inception.

At the present time, the banking structure of the United States is undergoing extensive reorganization. The character of our monetary system is being radically changed, and Professor Rufener shows that most of the monetary experiments, now effected, or contemplated, have been tried out in the course of the republic, and the lessons to be learned from past banking history are of importance to every one. The book makes clear that money is still governed by economic laws of long standing, and fully outlines the principles that bear on our present day monetary problem. If you would know the significance of our Federal Banking and currency legislation in 1933-34; why more than ten thousand banks failed in the dozen years following 1920; why the banking system collapsed entirely in 1933; why our government abandoned the gold standard; what one is to believe in respect to the relative merits of a gold standard, a bimetallic standard, or a multiple standard of value; what can be gained or lost by changing the mint price of gold, prohibiting the free export, and private ownership of gold, or manipulating the foreign exchange value of the dollar; what the relation is between the banking and currency system and periods of prosperity and depression,—read this book and its critical discussion of the principles of money and banking. Then you will find inflation, deflation, depression, credit crises, reconstruction, and reform, and our new monetary system much more understandable.

The author's clarity of exposition makes this an interesting book to read—one which will serve you well in following the problems of the day.

GEORGE R. QUIN, M. A. I.

Chicago, Ill., March 19, 1935.

Digest of the Minutes

The Governing Council of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards convened at 2:00 p. m. in the Rice Hotel, Houston, Texas, January 24, 1935, with President Philip W. Kniskern presiding.

On official motion the reading of the minutes of the meetings held in Washington, D. C., on Sept. 29, 1934, was waived.

K. Lee Hyder of Milwaukee, Wisconsin, was unanimously elected to the Governing Council to fill the vacancy in the term expiring December 31, 1936, caused by the death of Samuel C. Kane of Philadelphia, Pa.

Appointment of Committee Chairmen for 1935

The Governing Council unanimously approved the appointment of the following Committee Chairmen for 1935:

Admissions Committee—E. L. Ostendorf, Cleveland, Ohio.

By-Laws Committee—Harry E. Gilbert, Baltimore, Md.

Disciplinary Committee—W. H. Ballard, Boston, Mass.

Education and Research Committee—K. Lee Hyder, Milwaukee, Wisc.

Ethics Committee—Frank H. Taylor, East Orange, N. J.

Finance Committee—Philip W. Kniskern, Philadelphia, Pa.

Local Chapters Committee—Cuthbert E. Reeves, Buffalo, N. Y.

Membership Committee — Bracton Goldstone, New York, N. Y.[1]

Public Relations Committee—Ralph D. Baker, Camden, N. J.

Membership Report

The following Membership Report was submitted and approved:

1. Number of Members, Dec. 31, 1934	310
2. Number of Limited Members, Dec. 31, 1934	1
3. Number of Affiliates, Dec. 31, 1934	238
	549

4. Delinquents:
   a) Since Mr. H. Wendell FitzGerald of Teaneck, N. J., has not yet corrected his delinquency in membership dues for the year of 1934, the motion by Joseph B. Hall, seconded by Arthur S. Kirk, to suspend him was unanimously carried.
   b) Mr. Edward M. Ashton of Salt Lake City, Utah, was reported delinquent in the amount of $20.00 for membership dues for the year 1934. A motion by J. Alvin Register, seconded by Harry E. Gilbert, was unanimously carried to allow him 60 days in which to cure the delinquency or be automatically suspended.
5. Reinstatements:
   a) Mr. Hill Ferguson moved, seconded by Arthur S. Kirk, and unanimously carried, that the deposit made by G. Jackson, Jr., of Orlando, Fla., be returned to him, and that the Secretary request the return of his Membership Certificate and emblem pin unless he makes immediate application for reinstatement satisfactory to the Admissions Committee.
   b) Mr. Arthur S. Kirk, moved, seconded by E. L. Ostendorf, and unanimously carried, that the formal request for reinstatement of Frank B. McKibbin, Indianapolis, Ind., be approved.
6. Mr. Joseph B. Hall moved, seconded by Harry E. Gilbert, and unanimously carried, that the Governing Council ratify the admission of six candidates for Affiliate membership.
7. The Council unanimously approved a motion that the dues of Mr. Elmer Cave and Mr. Julius Braun be refunded to their respective widows.
8. The resignations of the following Affiliate members were accepted:
   Leo G. Varty, Chicago, Ill.
   Osgood E. Fifield, Syracuse, N. Y.
   Edwin H. Goodhart, Yonkers, N. Y.
   H. E. Goodley, Camden, N. J.

Treasurer's Report

The following report was made by Mark Levy, Treasurer, and was unanimously approved:

	Actual	Budgeted
1. Surplus, January 1, 1934	860.05	
2. *Receipts, Jan. 1 to Dec. 31, 1934:*		
A. 1934 membership dues	$ 4,960.95	$10,000.00
B. 1933 membership dues.	21.25	
C. Examination fees	705.00	500.00
D. Journals	4,845.20	2,500.00
E. Standard Forms	44.70	
F. Emblems and miscellaneous income	20.66	
G. Conferences — Chicago and Washington.....	1,277.00	
H. Sundry income	2.65	
Total	$11,877.34	$13,000.00
Grand Total	$13,860.05	

[1]Due to pressure of other work, Mr. Goldstone resigned as chairman of this committee in March and J. Alvin Register of Jacksonville, Fla. was appointed to fill the vacancy.—Ed.

3. *Expenses, Jan. 1 to Dec. 31, 1934:*

		Actual	*Budgeted*
A.	Refunded dues, 1934...$	45.00	$
B.	Administrative Expense:		
	a. Travel (including Reidy expenses to London) ...$360.07		
	b. Kardex 117.11		
	c. Miscellaneous 232.28	709.46	
C.	Examination fees	510.75	400.00
D.	Journals	3,260.38	3,000.00
E.	Postage	161.88	
F.	Printing and stationery	544.02	7,910.05
G.	Salaries	2,096.32	2,550.00
H.	Rent	436.37	
I.	Conferences — Chicago and Washington	1,477.16	
J.	Unpaid bills	11.15	
	Total ....$	9,252.49	$13,860.05
	Excess of receipts over expenses	2,624.85	
	Surplus, Jan. 1, 1934...	860.05	
	Net Cash, Dec. 31, 1934..$	3,484.90	

4. Summary of Surplus:

Cash and Certificate of Deposit ....$	4,531.05
Less Funds on Deposit.	1,035.00
Net Cash, Dec. 31, 1934.$	3,496.05
Unpaid bills	11.15
Balance Surplus ......$	3,484.90

REPORT OF THE FINANCE COMMITTEE

A written report from Cuthbert E. Reeves, Chairman of the Finance Committee, was read and approved by unanimous vote.

BUDGET FOR 1935

I. *Estimated Income*

1. Member dues (375 @ $20.00)..$	7,500.00
2. Limited Member dues (40 @ $15.00)	600.00
3. Affiliate dues (250 @ $10.00)..	2,500.00
4. Journal subscriptions (350)...	1,750.00
5. Examination fees	1,000.00
Total	$13,350.00

II. *Estimated Expense*

1. Printing the Journal..........$	4,000.00
2. Postage	500.00
3. Printing and stationery (general)	750.00
4. Salary account	5,757.50
5. Rent account	822.50
6. Miscellaneous	1,020.00
7. Staff Travel	500.00
TOTAL ESTIMATED EXPENSE FOR 1935	$13,350.00

REPORT OF THE BY-LAWS COMMITTEE

The report of the By-Laws Committee was made by Mr. E. L. Ostendorf, its Chairman. The Council considered the proposed amendments and action was taken as follows:

1.

Upon a motion by J. Alvin Register, seconded by Arthur S. Kirk, the following amendment to Article II, Section 2, Sub-Section C of the By-Laws was approved:

"Satisfactorily establishes his knowledge of and his ability, methodically and analytically, to appraise individual residence properties, multi-family dwellings up to 100 family apartments, typical retail and income properties, and other typical properties ordinarily found in a city or town of one-hundred thousand population."

2.

Upon a motion by Hill Ferguson, seconded by Harry E. Gilbert, the following amendment to Article II, Section 3, Sub-section F of the By-Laws was approved:

"The Governing Council in issuing a membership certificate to any individual qualified for a Limited Membership under sub-section C of this Section 3 shall clearly state his limited qualification and that he has demonstrated only his knowledge of and ability to appraise typical properties in cities and towns of ten thousand population; and certificates issued to those elected under subsection D of this Section 3 shall clearly state the special line or lines of their experience and approval."

3.

After some discussion, the following amendment to Article II, Section 5 was approved upon a motion by Alvin Register, seconded by Arthur S. Kirk:

"SECTION 5. No individual may be admitted to the grade of Member in the Institute unless his application be specifically approved by the Real Estate Board of which he is a member.

"In the case of applicants for admission to the grade of Member who are prominent professionally and whose principal place of business and principal appraisal activities are in a territory not included in the jurisdiction of any one Member Board of the National Association of Real Estate Boards; or where a Member Board of the National Association does not exist; or where such applicant is a salaried employee of any unit of government; or where such applicant is a salaried employee of a financial or lending institution and whose work normally covers a wide and

extensive territory,—the Governing Council may waive the requirement of membership in a member Board of the National Association of Real Estate Boards as set forth in Sections 2 and 3 of this Article, and, if otherwise qualified, admit such applicants to the grade of membership to which they are qualified in the Institute provided, however, that whenever individual membership in the National Association of Real Estate Boards is available then such applicant must hold and maintain Individual Membership in the National Association of Real Estate Boards."

4.

Upon a motion by Hill Ferguson, seconded by E. L. Ostendorf, the following amendment to Article VIII, Section 2, was approved:

"The report of the Nominating Committee and any additional nominations shall be read at the first session of the annual meeting for the information of the Members."

5.

After discussion a motion made by E. L. Ostendorf, seconded by Harry E. Gilbert, to eliminate the following proposed amendment to Article XV, was approved:

"SECTION 5. A quorum for any regular meeting of the Institute shall consist of the Members in good standing present either in person or by proxy, provided that not less than two weeks' written notice has been mailed to every Member at his last known address."

6.

Upon a motion made by Joseph B. Hall, seconded by J. Alvin Register, the following amendment to Article XV was approved:

"SECTION 6. A quorum for any meeting of the Governing Council shall consist of seven (7) members present in person."

7.

After some discussion, the following amendment to Article X, Section 1, was approved upon a motion by Arthur S. Kirk, seconded by J. Alvin Register:

"The Governing Council may elect from among its own number a President; and a Vice-President from each of nine (9) regions created by the Governing Council (subject to the right of the Governing Council to make changes therein at any time, such regions are hereby designated with boundaries and identification coincident with the regions already created by the Board of Directors of the National Association of Real Estate Boards). These officers shall also be respectively President and Vice-President of the American Institute of Real Estate Appraisers: and their duties shall be such as usually pertain to their respective offices.

"The Vice-Presidents shall, in the order of their nomination for the then current tenure of office, perform the duties of the President in the event of his absence or disability. They shall supervise the work of the Institute in their respective regions and act as the representative of the President in such matters as may be assigned to them.

"In case of a vacancy in the office of any Vice-President it shall be filled by the Governing Council for the unexpired term from the region in which the vacancy occurs, and such Vice-President shall be regarded as the last nominee under the provisions of the second paragraph of this section."

SUGGESTIONS OF NEW YORK CHAPTER ON PROPOSED BY-LAWS

In response to a suggestion from the New York Chapter that regional vice-presidents be elected by the Chapters, the Governing Council directed Bracton Goldstone, President of New York Chapter No. 4, to say to its members that the Nominating Committee of the Institute will be glad to have suggestions concerning members of the Institute nominated for election to the Governing Council.

PROCEDURE IN ADMISSION OF AFFILIATES

The Governing Council unanimously approved a proposal providing for the immediate admission of all candidates for the Affiliate grade who meet the specifications set forth in the By-Laws upon receipt of their applications.

MEMBERSHIP IN THE CALIFORNIA CHAPTER

The following excerpt from Page 12 of the December issue of the California Real Estate Magazine was brought to the attention of the Governing Council:

> "The California Chapter of the Institute has gone on record as opposed to admission of members possessing qualifications not up to the standard set for the grade of full Member. It will not, therefore, accept any application for any grade other than the highest grade."

The Governing Council instructed that the attention of the California Chapter be directed to Article II, Sections 1 and 2 of the By-Laws of California Chapter No. 5 under which it was admitted as a Chapter in the Institute:

"*Section 1.* Membership in the Chapter shall be divided into the same grades and shall, in general, carry the same respective privileges as membership in the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards.

"*Section 2.* Membership in the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards shall be the sole qualification for membership in the Chapter."

REPORT OF THE ADMISSIONS COMMITTEE

Mr. E. L. Ostendorf, Acting Chairman of the Admissions Committee, reported that the Committee met in the Rice Hotel in Houston, Texas, on Jan. 23, 1935, and considered 110 applications

for admission to the Member grade and Limited Member grade.

On motion of Hill Ferguson, seconded by Joseph B. Hall, and unanimously carried, the following were elected to the Member grade:

Richard C. Willis, Los Angeles, Calif.
Frank C. Woods, South Pasadena, Calif.
Charles H. Tompkins, Washington, D. C.
Warren P. Hunnicutt, St. Petersburg, Fla.
Arthur Krugell, Chicago, Ill.
Robert C. Nordblom, Boston, Mass.
J. Frederick Sutherland, Minneapolis, Minn.
Gunther Meier, Clayton, Mo.
Elmer Jackson Pearl, Ocean City, N. J.
Armond Brunswick, Jamaica, N. Y.
James H. Dawley, Syracuse, N. Y.
Vernon N. Bailey, White Plains, N. Y.
B. H. Sumner, Asheville, No. Carolina.
J. George Ege, Cincinnati, Ohio.
James G. Bingham, Cleveland, Ohio.
W. J. Crawford, Jr., Cleveland, Ohio.
Chas. N. Hostetter, Massillon, Ohio.
George W. Person, Memphis, Tenn.
Nathaniel Bender, Seattle, Wash.
Walter G. McLean, Seattle, Wash.
J. H. Sparkman, Seattle, Wash.
Edwin G. Wendland, Seattle, Wash.
Isaac Keim, Chicago, Ill.
I. Sydney Jenkins, Louisville, Ky.
Bion T. Wheeler, Springfield, Mass.
Leon E. Todd, Camden, N. J.
Maurice A. Kelley, Ventnor City, N. J.
J. C. McQuigg, Seattle, Wash.
A. C. Newell, Seattle, Wash.
Ben J. Smith, Seattle, Wash.
Charles F. Curry, Kansas City, Mo.

On motion of Harry E. Gilbert, seconded by Hill Ferguson, twelve additional candidates were unanimously elected to the Member grade subject to stated conditions.

On motion of E. L. Ostendorf, seconded by Arthur S. Kirk, and unanimously carried, the following were elected to the Limited Member grade:

George Fesperman, Waycross, Ga.
William Bush, Muskegon, Mich. Limited Member (Residence).
Rudolph Kruger, Newark, N. J.
George H. Snyder, Dayton, Ohio.
Leo V. Boyle, Pawtucket, R. I. Limited Member (Residence).
Richard A. Hurley, Providence, R. I.
Samuel De Boe Walker, Keyport, N. J.
Harry C. Miller, Wheeling, W. Va.

On a motion by Harry E. Gilbert, seconded by Hill Ferguson, and unanimously carried, Mr. Josh Ewing, of Texas, was elected to the Limited Member grade subject to the acceptance of his application for Individual Membership in the N. A. R. E. B., and notice to Members.

On motion of Joseph B. Hall, seconded by J. Alvin Register, the recommendations of the Admissions Committee to defer action on 45 applicants for reasons stated in connection with the name of each applicant was approved.

On motion of E. L. Ostendorf, seconded by Joseph B. Hall, the action of the Admissions Committee in rejecting 11 applications, and withdrawing one application by permission, was approved.

On motions duly made and seconded the following recommendations of the Admissions Committee were approved:

1. All applicants requesting an additional examination after one supplementary examination has been given must wait at least one year before reapplying for such examination and furnish evidence of further study.

2. The following specifications for sample appraisals to be submitted with applications for membership were set up:

"The Secretary shall require of all applicants as follows:

a. Three actual appraisals that have been made for an actual client or clients for which a consideration has been received, either as a fee or a salary. These shall consist of a residence, and two income properties of different types.

b. An affidavit that these three appraisals have been made by the applicant as described in paragraph a.

c. The applicant must submit in, or with, each appraisal the supporting data by which he arrived at his conclusion.

d. The applicant should bear in mind that the Institute stands for reasoned appraisals that carry conviction to those for whom they are made, and will not consider the unsupported appraisal."

3. Tentative outline of requirements for Member Grade examinations,[2] Including:

(a). Familiarity with By-Laws;
(b). Familiarity with Code of Ethics;
(c). Knowledge of appraisal terminology;
(d). Knowledge of appraisal procedure—Data Program, Comparison (Place of depth and corner influence tables), Summation (Reproduction Cost and Depreciation), Income (Rents, Expenses, Methods of Capitalization, [Direct Annuity and Computations of Rates]), Leasehold, Sinking Fund, Economic Life;
(e). Knowledge of required contents of appraisal reports.

PERIODICAL PAMPHLET CONTAINING A ROSTER OF MEMBERS

Consideration of a proposal to publish a periodical pamphlet containing a roster of the Members of the Institute was deferred to the next meeting

[2]A substitute income section is to be developed for the Limited Member Grade.—Ed.

of the Governing Council. In the meantime the Secretary is authorized by the Governing Council to print three to five hundred copies of a folder containing the Roster from the next issue of the Appraisal Journal for limited distribution.

DESIGNS FOR EMBLEM PINS FOR LIMITED MEMBERS

The selection of the specific design of badges for Limited Members was left to the Secretary, Mr. Kniskern, and Mr. Hall.

REPORT OF COMMITTEE ON LOCAL CHAPTERS

A written report from Cuthbert E. Reeves, Chairman of the Committee on Local Chapters, was read and accepted.

This report called attention to the increasing interest in Chapter organization and activities; recommended closer association of Members in local Chapters; called attention to the development of rival organizations such as the Michigan Institute of Real Estate Appraisers, and the Massachusetts Board of Real Estate Appraisers, and recommended a greater interchange of ideas and activities between the Chapters.

FORMAL APPLICATION FOR CHARTER FOR A NEW ENGLAND CHAPTER

The formal application for a charter for a Chapter in New England was presented and approved by unanimous vote.

An expenditure of an amount not to exceed $30 was authorized for the engrossing of a Charter for the New England Chapter.

DISCIPLINARY COMMITTEE

Since no case requiring definite action of the Disciplinary Committee has arisen, no report was submitted by Maurice F. Reidy, Chairman of the Disciplinary Committee.

REPORT OF THE COMMITTEE ON EDUCATION AND RESEARCH

On motion duly made, seconded, and carried, the informal report made by Joseph B. Hall, Chairman of the Committee on Education and Research, and K. Lee Hyder on the progress of the Committee to the General Session of the American Institute of Real Estate Appraisers at the Rice Hotel on Jan. 23rd and 24th, was approved.

REPORT OF THE MEMBERSHIP COMMITTEE

On motion duly made, seconded, and carried, the informal report made by Bracton Goldstone, Chairman of the Membership Committee, on progress of the Committee and plans for the coming year to the General Session of the American Institute of Real Estate Appraisers at the Rice Hotel on Jan. 23rd, was approved.

REPORT OF THE LEGISLATION AND LEGAL COMMITTEE

There was no report from the Legislation and Legal Committee.

REPORT OF THE ETHICS COMMITTEE

The report of the Ethics Committee was presented by its Chairman, Mark Levy.

It was moved by E. L. Ostendorf, seconded by J. Alvin Register, and unanimously carried, that certain specified additions be made to the Code of Professional Ethics of the American Institute of Real Estate Appraisers.[3]

On a motion by Joseph B. Hall, seconded by Harry E. Gilbert, the following resolution was passed unanimously:

> *Resolved* that M. A. I.s are entitled to solicit business but the manner in which such solicitation is made may be considered from time to time by the Ethics Committee.

PROPOSED SUMMER SCHOOL

On motion of Joseph B. Hall, seconded by Hill Ferguson, and unanimously carried, the Governing Council approved the establishment of a summer school to be held in Chicago if satisfactory financial arrangements can be made. The selection of instructors, and a proposed budget of preliminary expenses not to exceed a responsibility for the Institute of more than $700, must be approved by the Governing Council.

MEMBERSHIP CERTIFICATES

On motion duly made and seconded, designs for new Membership Certificates were approved as submitted.

NOMINATING COMMITTEE APPOINTMENTS

The following Nominating Committee appointments were approved:

E. L. Ostendorf	J. Mortimer Clark
Maurice F. Reidy	Geo. R. Quin
Morris Goldfarb	

AUTHORIZED INCREASE IN GOVERNING COUNCIL

The Council voted unanimously to increase the number of Governing Councillors to twenty-eight, the maximum allowed by Article VII, Section 1 of the By-Laws, and authorized the president to instruct the Nominating Committee accordingly, and asked that due consideration be given to geographical distribution.

ELECTION OF ADDITIONAL REGIONAL VICE-PRESIDENTS

The Council authorized the President to nominate regional Vice-Presidents in such number as he deems necessary and send the nominations to the Governing Council for vote by mail.

THE PAST PRESIDENT AND THE TREASURER AS EX-OFFICIO MEMBERS OF THE GOVERNING COUNCIL

The Council voted unanimously to include the past president and the Treasurer of the Institute as ex-officio members of the Council, each with the right to vote,—the past president's term as an ex-officio member of the Council to be for a period of two years.

---

[3]See Art. I, Sec. 4 and all of Art. XIII of the Rules of Professional Ethics beginning on Page 273 of this issue.—Ed.

New Members

At the Regular Quarterly Meeting of the Governing Council, held in Houston, Texas, on January 24, 1935, the following were elected to the grade of Member in the American Institute of Real Estate Appraisers:

RICHARD C. WILLIS, LOS ANGELES, CALIF. Born in Wichita, Kansas; Active Member, Los Angeles Realty Board; professional territory covers Los Angeles and environs; experienced as Instructor of classes in real estate appraising; Graduate of the Biltmore Forest School; 1 year's study in mechanical engineering at Purdue University; Chairman, Appraisal Committee, Los Angeles Realty Board for 3 different terms; 15 years experience in the appraising of real estate; appraisal experience includes the valuation of industrial property, business property, and residential property.

FRANK C. WOOD, SOUTH PASADENA, CALIF. Member, Los Angeles Realty Board; Salesman, F. C. Wood & Co.; H. O. L. C. Appraiser; Appraiser for Janss Investment Corp.; 12 years experience in the appraising of real property, including the valuation of vacant property, stores, office buildings, dormitories, residences, and industrial property; between 1928 and 1933 made approximately 4,000 appraisals of residential, apartment, business and industrial property, for the Janss Investment Corp., Holmby Corp., Janss Finance Co., and Westwood Mortgage Co.; formerly Head of Industrial Dept., Charles G. Andrews Company. Born in Oak Park, Ill.

CHARLES H. TOMPKINS, WASHINGTON, D. C. Born in Baltimore, Maryland, in November, 1883; Active Member, Washington R. E. Board; President, Chas. H. Tompkins Co., Construction Engineers; Director, The Riggs National Bank; Member, Examining Committee, The Riggs National Bank; Chairman, Appraisal Committee, Washington R. E. Board; State Appraisal Advisor, Washington District, H. O. L. C.; professional territory covers District of Columbia and adjacent Maryland and Virginia; Member, American Society of Civil Engineers; Member, American Concrete Institute; Member, Society American Military Engineers; Member, American Institute of Banking; Member, U. S. Chamber of Commerce; Member, Washington Society of Engineers; 17 years experience in the appraising of real property, including the valuations of residences, industrial property, office buildings, hotels, commercial properties, etc.; 3½ years at George Washington and Lehigh Universities; Classified as graduate by Lehigh University on accomplishment, 29 years experience in the building construction business having built over 700 buildings in Washington and vicinity of all classes from small residences to large apartments, bank buildings, office buildings, and large department stores.

WARREN P. HUNNICUT, ST. PETERSBURG, FLORIDA. Born in Gainesville, Ga., November, 1894; Active Member, St. Petersburg Realty Board; professional territory covers entire State of Florida, but principally its Western Coast; Lecturer and Teacher; College Work in Randolph-Macon College of Ashland, Va.; Law Course in Georgetown University, Washington, D. C.; N. A. R. E. B. Appraisal Course, and independent study of leading American and English authorities, including Kniskern, Babcock, Zangerle, Webb, Hurd, McMichael, Thorson, Henderson, and others; 5 years experience in the appraising of real estate including the valuation of estates, business properties, apartment properties, warehouses, hotels, vacant property, industrial property, and farms.

HARRY GOLDSTINE, CHICAGO, ILLINOIS. Born in Chicago, Illinois, in July, 1869; President, Harry Goldstine Realty Co.; President, Tamiami Corporation of Florida; active Member Chicago Real Estate Board; professional territory covers Cook County, Illinois; author and lecturer; actively engaged in real estate business for thirty-nine years; thirty years' experience in the appraising of real estate including the valuation of all classes of real property; qualified in Court as an expert on all kinds of real estate values; has appraised properties for Chicago Title & Trust Company and other financial institutions; has built over two hundred and fifty buildings of all kinds during the last thirty years.

ISAAC KEIM, CHICAGO, ILL. Born in Chicago, Illinois; Active Member, Chicago Real Estate Board; professional territory covers Illinois, Wisconsin, Indiana, and Michigan; 12 years experience in the appraising of real property; associated with E. J. Lehman of The Fair, loop department store, during the period 1877 to 1888; in 1888 organized the business of Siegel, Cooper & Company; entered real estate business in 1914 as Manager of the Leiter Building at State and Van Buren Sts.; associated with W. K. Young and Brothers from 1918 to 1928; since 1928 has been in business on his own account as a Realtor.

ARTHUR KRUGGEL, CHICAGO, ILLINOIS. Born in Chicago, Illinois, July, 1888; Active Member, Chicago Real Estate Board; professional territory covers Metropolitan Chicago; scholastic training at Lewis Institute and the University of Wisconsin; over 25 years experience in the general real estate business including subdividing, building of homes, business properties, making and selling of mortgages, appraising, insurance, and

the management of real estate; 15 years experience in the appraising of real estate including the valuation of apartments, factories, stores, hotels; Author.

I. SIDNEY JENKINS, LOUISVILLE, KENTUCKY. Born in Louisville, Ky., in August, 1887; Vice-President, The Louisville Trust Company, in charge of Mortgage Loan and Real Estate Departments; Appraiser for Equitable Life Assurance Society, Kentucky Title Trust Co., and for practically every bank and trust company in Louisville during the past 10 years; professional territory confined principally to Jefferson County, Ky.; Active Member, Louisville Real Estate Board; Lecturer, Teacher, and Author; 23 years experience in the appraisal of real estate including the valuation of vacant, commercial, industrial, residential, and special use properties.

PAUL F. SEMONIN, SR., LOUISVILLE, KY. Born in Louisville, Ky.; Active Member, Louisville Real Estate Board; President, Paul Semonin, Inc.; Chief State Appraiser, H.O.L.C. in Kentucky; professional territory confined to Louisville and vicinity except that duties as Chief State Appraiser for H.O.L.C. are spread over the entire State of Kentucky; President, Kentucky Manufacturing and Plating Co.; 15 years experience in the appraising of real property including the valuation of commercial properties, farms, schools, railroad and industrial properties, residential properties, theaters, packing plants, etc.

R. S. WHITTEN, SHREVEPORT, LOUISIANA. Born in Lamar County, Texas, April, 1882; professional territory covers Shreveport and Caddo Parish, Louisiana; Director and Chairman of Appraisal Committee, Shreveport Real Estate Board for 1931, 1932, 1933, and 1934; Director, Shreveport Mutual Building Assn. (now First Federal Savings & Loan Assn.); Author; has also done appraising for the First National Bank of Shreveport, Equitable Life Assurance Society, H. O. L. C., Continental-American Bank & Trust Co. of Shreveport, railroads, attorneys; has qualified as an expert witness in City, State, and Federal Courts; actively engaged in the real estate brokerage and appraisal business in Shreveport since 1919.

ROBERT C. NORDBLOM, BOSTON, MASS. Born in Boston, Mass., August, 1904; Member of the firm, Robert A. Nordblom Company, Inc.; Active Member, Brokers Board, Boston Real Estate Exchange, and Massachusetts Real Estate Exchange; Member, Owners & Managers Association; President, Insurance Building Corporation; President, Egremont Associates, Inc.; Vice-President of R. A. Nordblom Co., Inc., of New York; President, Oliver Investment Corporation; licensed real estate broker in New York; licensed real estate broker in Massachusetts; professional territory covers New York, Washington, D. C., Springfield and Worcester, Massachusetts; attended Syracuse University; active in real estate business since 1924, with experience in brokerage, sales, construction, finance, insurance, management, and appraising; Appraiser for H. O. L. C. in Massachusetts; appraisal experience includes the valuation of vacant, apartment properties, churches, office buildings, and industrial properties.

BION T. WHEELER, SPRINGFIELD, MASS. Born in St. Louis, Mo., in July, 1890; Active Member, and Director, Springfield R. E. Board; Appraiser for Prudential Insurance Co., Com. of Massachusetts, H. O. L. C., and the Mutual Life Insurance Co.; Represents various banks; has testified in every Real Estate Court Case in Springfield during the past 8 years; Lecturer, Author, and Teacher; retained by Assessors to place unit value on all Springfield real estate for "Cambridge System"; Assistant City Assessor; Member, Massachusetts Legislature 1918-1919; 17 years experience in the valuation of real estate, including the appraising of homes, golf courses, store properties, office buildings, mills, hotels, garages, professional buildings, etc.

GEORGE W. DRENNAN, DETROIT, MICHIGAN. Born in St. Clair County, Michigan, in December, 1878; President, Drennan & Seldon, Inc.; President, Alter Land Company; active Member and past President Detroit Real Estate Board; professional territory covers Detroit and vicinity; over twenty years' experience in the appraisal of real estate; licensed real estate broker; qualified in Court as an expert on various kinds of real estate values; has appraised properties for many insurance companies and for most of the financing institutions in Detroit; has had extensive construction experience.

J. FREDERICK SUTHERLAND, MINNEAPOLIS, MINN. Born in Minneapolis in September, 1892; Active Member of and Alternate Appraiser for the Minneapolis Real Estate Board; admitted to Bar in Minnesota in 1923; professional territory covers Minneapolis and surrounding suburban territory; formerly Assistant Treasurer and now Director, David C. Bell Investment Company; Associate Partner, The Sutherland Investment Co.; Director, Minneapolis Real Estate Board for 6 years; Director, Mortgage Bankers Association; Secretary, Minneapolis Real Estate Board for 1 year; Commissioner in street acquisition, appraising 78 properties; 14 years experience in the appraising of real property, including the valuation of factories, homes, filling stations, stores, and apartment properties.

GUNTHER MEIER, CLAYTON, MO. Born in St. Louis; Active Member, St. Louis County Real Estate Board; Chief Appraiser for the State of Missouri for Federal Home Owner's Loan Corp.; Vice-President, Meier, Comfort, Bergs & Judge, Inc.; President, Picardy Realty Corp.; Vice-Presi-

dent, Clermont Realty Corp.; Vice-President, Trio Realty Co. Inc.; professional territory covers the State of Missouri; has served 12 years as Vice President and President, Meier, Comfort, Bergs & Judge, Inc.; appraisal experience covers a period of 12 years and includes the appraising of residential, subdivision, industrial, and miscellaneous properties, with values ranging from $5,000 to $357,000.

GEORGE M. BLISS, KANSAS CITY, MO. Born in Kansas City, Missouri, May, 1896; President, George M. Bliss Construction Co.; Vice-President, State Investment Company; President, Western Cities Investment Co.; President, Domestic Finance Company; Secretary, Success Federal Savings & Loan Association; President, Great Western Realty Co.; President, Hollywood Hills Realty Co.; Affiliate member, Kansas City Real Estate Board; Author and Teacher; Active in the real estate business since 1912; Graduate of the University of Wisconsin; experienced as owner and operator of an electric light and power plant; platted several subdivisions in Kansas City, Missouri; built over 300 houses, hotels, office buildings, etc., in Missouri, Kansas, and Oklahoma; appraisal experience includes the valuation of apartments, undertaking establishments, residences, hotels, business properties, industrial properties, garages, vacant etc.; professional territory covers Western Missouri.

CHARLES F. CURRY, KANSAS CITY, MO. Born in Kansas City, Missouri, November, 1889; President, Charles F. Curry Real Estate Co.; President, Baltimore Avenue Federal Savings & Loan Association; Executive Vice-President, Baltimore Avenue Building & Loan Association; Fee Appraiser, H. O. L. C.; Active, Class A Member, Kansas City Real Estate Board, serving in the following positions: Director, Second Vice-President, Member Executive Committee, Member Appraisal Committee, Chairman Program Committee, Member Budget & Finance Committee, Member Apartment Rental Committee; C. E. Degree, University of Wisconsin, 1910; Research Assistant College of Engineering, University of Missouri, 1910-11; Consulting Engineer, 1913-1917; Assistant City Engineer, Kansas City, Missouri, 1919; professional territory covers Kansas City and environs; 14 years experience in the appraising of real estate including the valuation of vacant, homes, business property, fire-proof apartments, etc.; qualified in the Circuit Court as Expert on business, apartment, and residential properties in 1928; has appraised residential properties for the Midland Life Insurance Co., City Bank & Trust Co., Baltimore Avenue Building & Loan Association; built residences totaling over $100,000, apartments totaling over $300,000, and business properties totaling over $100,000, both for sale and under private contracts; served as Salesman for the F. C. Sharon Real Estate Company from 1920-1924.

LEON E. TODD, CAMDEN, N. J. Born in Camden, N. J., November, 1893; President Leon E. Todd, Inc.; former President, and Member Camden County Real Estate Board; Developer and General Manager, Medford Lakes Company; Secretary of four Building & Loan Associations; professional territory covers Camden and Burlington Counties, New Jersey; former President, New Jersey Association of Real Estate Boards; Vice-President, National Association of Real Estate Boards, 1933, 1934, 1935; Member, Executive Committee, National Association of Real Estate Boards, 1934; Lecturer, Teacher, and Author; 10 years experience in the appraising of real estate including the valuation of vacant, residences, stores, airports, farms, lake property, etc; Graduate, Camden High School; had 2 years of Law at Temple University.

ELMER JACKSON PEARL, OCEAN CITY, N. J. Born in Philadelphia, Pa.; Active Member and President, Ocean City Real Estate Board; Past Vice-President, New Jersey Association of Real Estate Boards; Assistant District Appraiser, H. O. L. C.; professional territory covers Ocean, Atlantic, and Cape May Counties, N. J.; Author and Lecturer; 15 years in general real estate business including some building experience; 8 years experience in real estate appraising including the valuation of beachfront properties, hotels, residences, apartments, and vacant property.

MAURICE A. KELLEY, ATLANTIC CITY, N. J. Born in Camden, N. J.; Member of the firm, C. J. Adams Co.; Junior Member, Atlantic City Real Estate Board; professional territory covers Atlantic County, N. J.; 8 years experience in the appraising of real estate; Graduate, Villanova College with a B. S. degree in Economics; has had experience in state highway construction, sewage disposal plants, bridge construction, construction of docks and ways for ship building companies; has had direct supervision of construction embracing small residential units of about $5,000 class, also residential property of the $20,000 class, together with store and apartment construction; has appraised for leading financial institutions in Philadelphia, Baltimore, New York and Atlantic City, and has appraised for the Home Owner's Loan Corporation more than 300 properties.

CLARENCE C. MERRITT, NEW YORK, N. Y. Born in New York, N. Y., August, 1882; Member, firm of Walker, Miller & Merritt; Member, firm Merard Company, Inc.; professional territory covers Westchester County, N. Y. and Greenwich, Conn.; full Member, Westchester County Realty Board; 10 years' experience in the appraising of real estate, including valuation of vacant, residential and apartment buildings; Columbia University School of Architecture; Amsterdam Building Company.

ARMAND BRUNSWICK, JAMAICA, N. Y. Born in Mulhausen, Lorraine, France; President, Brunswick Appraisal Corporation; professional territory covers Queens and Nassau Counties, New York; Member, Long Island Real Estate Board; 10 years experience in the appraising of real property, including the valuation of industrial property, residential property, and vacant property; formerly Member, Advisory Board, American Trust Co.; 25 years experience in the general real estate field; formerly on Officer of M. Morgenthau, Jr., Co., of New York City.

JAMES H. DAWLEY, SYRACUSE, N. Y. Born in Minneapolis, Minn., in 1896; Vice-President and Treasurer, Dawley Real Estate, Inc.; Director, Syracuse Title & Guaranty Co.; Director, Morningside Cemetery Association; professional territory covers Syracuse and Central New York; Class B Member, Syracuse Real Estate Board; active in real estate since 1915; real estate experience includes brokerage and the management of property for 18 banks and corporations as well as almost continuous service on the Real Estate Appraisal Committee of the Syracuse Real Estate Board since 1922; was Chairman of this Committee for 2 years; has had experience purchasing property for such corporations as the New York Central Railroad, Syracuse University, Onondaga Silk Company, etc., and has specialized in condemnation and other Court appraisal work; valuation experience includes the appraising of apartments, garages, commercial property, gas stations, club buildings, industrial properties, and special purpose properties.

VERNON N. BAILEY, WHITE PLAINS, N. Y. Born in North Salem, N. Y.; Associate Member, Westchester County Realty Board; professional territory covers Westchester County; Assistant Secretary and Appraiser, New York Title & Mortgage Co.; 15 years experience in the appraising of real estate; entered real estate business as a Salesman for Edward M. West in 1910; became Member of firm of William E. Morrell, Inc., in 1917; entered employ of New York Title & Mortgage Co. as Westchester County Appraiser in 1921; became Assistant Secretary to Company in 1924.

B. H. SUMNER, ASHEVILLE, NORTH CAROLINA. Born in Chimney Rock, North Carolina, in 1872; professional territory covers Western North Carolina; County Appraiser for H. O. L. C.; Chairman of the Property Owners Division, Member of the City Planning Committee, and Member of the Committee on Municipal Ordinance Legislation of the Asheville Real Estate Board; 25 years experience in the appraising of real property; appraised more than $100,000,000 worth of property for the City of Asheville and Buncombe County; this work included residences ranging in price from $1,000 to $50,000, store buildings, apartments, warehouses, and all other types of property typical to this area.

CARL G. WRIGHT, ERIE, PA. Born in Erie County, Pa., April, 1890; in business under own name doing a general real estate, mortgage loan, and general insurance business; Loan Correspondent, The Connecticut Mutual Life Insurance Company since 1928; Active Member, Vice-President, and Treasurer, Real Estate Board of Erie; professional territory covers Erie & Vicinity; Graduate,—State Teachers' College and Erie Business College; 4 years teaching experience, Erie Business College; 8 years experience in appraising of real estate; Licensed real estate Broker since Pennsylvania License Law was passed; qualified in Court as an Expert on city and suburban property values from 1928 to date; has appraised for the Connecticut Mutual Life Insurance Co., Marine National Bank of Erie, and Workingmans Building & Loan Association; Supervisor Plant Construction, General Electric Company and Chairman, Housing Bureau Committee, General Electric Company; 8 years experience in general real estate selling; valuations include residential properties, farms, commercial properties, manufacturing plants, etc.

J. GEORGE EGE, CINCINNATI, OHIO. Born in Cincinnati, Ohio, in April, 1894; Active Member, Cincinnati Real Estate Board; Assistant State Appraiser in charge of the 4th Ohio District, H. O. L. C.; Director, Member of Finance Committee, and Appraiser, The Mohawk Place Building & Loan Company; 13 years active experience in the appraising of real property; 10 years with the Fred'k A. Schmidt Co. of Cincinnati; employed by County Auditor to assess tax values on land in the Western part of Hamilton County in 1925-1926; served as Deputy Auditor to fix units of value for taxation of land in Western part of Cincinnati in 1931; assisted John H. Frey, M. A. I., and Lewis R. Smith, M. A. I., in appraising 16,000 parcels of improved and unimproved property of all kinds in 1930 for the County Commissioners of Hamilton County; appraised property for estates and a great many private clients during the last 5 years; educational training has included the study of such subjects as appraising, accounting, economics, history, etc., since leaving school as a resident student.

JAMES G. BINGHAM, CLEVELAND, OHIO. Born in Elyria, Ohio; professional territory covers Cuyahoga County, Ohio; President, The James G. Bingham Realty Co.; President, B. & J. Realty Co.; President, Factory Site Company; President, The Allotment Securities Co.; Vice-President, The Bingham Land Co.; has been actively engaged in the real estate business in Cuyahoga County and Cleveland for the past 27 years, specializing in the sub-dividing, building, and improvement of allotment property; doing a general brokerage

buying and selling business; Active Member, Cleveland Real Estate Board for the past 25 years serving on its Board of Directors for 6 years and its Appraisal Committee for 3 years; appraisal experience includes the valuation of acreage, residential, business, and special purpose properties.

W. J. CRAWFORD, JR., CLEVELAND, OHIO. Born in Cleveland, Ohio; Class A Member, Cleveland Real Estate Board; professional territory covers Cuyahoga County; Director, Equity Savings and Loan Co.; Trustee, University School; Trustee, The Roosevelt Memorial Association; active in real estate business since 1909; President, The Crawford Realty Company; President, The Crawford Land Company; President, The Cuyahoga Valley Realty Company; served as a Member of the Valuation Committee of the Cleveland Real Estate Board for 6 years; assisted in the valuation of more than a hundred million dollars worth of realty; valuation experience includes the appraisal of homes, farms, industrial property, acreage, and apartment building properties.

CHAS. N. HOSTETTER, MASSILLON, OHIO. Born in Massillon, Ohio; Active Member, Massillon Real Estate Board; Chairman, Appraisal Committee, Massillon Real Estate Board; Appraiser, Massillon Mortgage Co.; President, HyGrade Realty Co.; Vice President, The C. J. Hostetter Corporation; Director, Massillon Mortgage Co.; Director, Community Finance Corporation, Massillon; Member, Board of Governors and Executive Committee, Ohio Assn. of Real Estate Boards; Member, Taxation Committee, Ohio Assn. of Real Estate Boards; professional territory covers Stark County with occasional professional work in other parts of Northeastern Ohio; studied law, La Salle & McKinley Law School and admitted to the Bar, 1932; 30 years experience in construction work starting as carpenter and carrying through to architectural engineering, estimating and designing; 20 years in the real estate business; 12 years experience in the appraising of real estate including the valuation of vacant property, hotels, business property, residences, bank and office buildings, and special purpose property.

GEORGE W. PERSON, MEMPHIS, TENN. Born in Memphis, Tenn.; Active Member and President Real Estate Board of Memphis; Director and Appraiser, Superior Bldg. & Loan Assn.; Vice-President, Tennessee Assn. of Real Estate Boards; Director National Assn. of Real Estate Boards; professional territory covers Tennessee, Arkansas, and Mississippi; associated with the Artesian Water Co. of Memphis, 1890-1903; Secretary, Water Dept. of the City of Memphis, 1903-1907; entered real estate business in 1907 and has since that date had a wide experience as a subdivider and builder, giving a great deal of time to appraisal work including condemnation cases; in 1918 served on the Bureau of Industrial Housing in the Dept. of Labor, Washington, D. C.

M. R. CARB, FORT WORTH, TEXAS. Born in Fort Worth, Texas, in February, 1888; Member and Director of Fort Worth Real Estate Board; professional territory covers Fort Worth and environs; conducted two schools on appraisal for Fort Worth Real Estate Board; nine years' experience in the appraising of real property; qualified in Court as an expert on values of all types of real estate except farms; has appraised for Connecticut Mutual Insurance Company and various local financing institutions including banks and building and loan associations; built over three hundred homes ranging in price from $1,000 to $30,000; appraisal experience includes valuation of residential and industrial property, fire-proof office buildings, fire-proof hotels, theatres, and various miscellaneous types of properties.

PAUL W. ADAMS, SAN ANTONIO, TEXAS. Born in San Antonio, Texas, in 1894; Manager, Real Estate Department, Central Securties Company and the South Texas National Bank; active Member and Past President of San Antonio Real Estate Board; Member, San Antonio Appraisal Club; lecturer, author, and teacher; entered real estate business as salesman in September, 1923; partner in firm of Adams & Freeborn, Realtors, 1926-32; Director of San Antonio Real Estate Board since 1926; fifteen years' experience in appraising real property including valuation of business property, vacant, industrial property, hospitals, homes and special purpose properties; qualified in Court as an expert on commercial and residential property values; appraised properties for Pacific Mutual Insurance Company and occasional appraisals for other life insurance companies; appraised properties for Central Securities Company and for the Farm and Home Loan Company of Missouri; experienced in supervising construction of improvements and repairs for Central Securities Company and South Texas National Bank; also a limited amount of small residential construction.

A. H. CADWALLADER, JR., SAN ANTONIO, TEXAS. Born in San Antonio, Texas, in June, 1893; Manager, Real Estate Department, The Wheeler-Gill Company; Manager, Nix Professional Bldg., Manager, Majestic Office Bldg.; Manager, Nix Hospital; Manager, Nix, Star, Travis & Service Garages; active Member of San Antonio Real Estate Board; professional territory covers San Antonio and environs; nine years' experience in the appraising of real property including residential and commercial property; qualified in Court as an expert on office building valuations in 1934; founded the American Building Company in 1926; experience includes all phases of development and construction activity; the American Building Company became an affiliate of San An-

tonio Building Materials Company in 1926, which went into receivership in November, 1929; established a mortgage loan company under his own name in January, 1930, originating loans principally for American National Insurance Company of Galveston, Texas; became Manager of Real Estate Department of Wheeler-Gill Company in February, 1932; has served on appraisal committees of San Antonio Real Estate Board and made private appraisals for financing and insurance institutions as well as individuals.

L. A. CASEY, SAN ANTONIO, TEXAS. Born in Mountain View, Arkansas, in 1886; in general real estate business as Member of firm Richey & Casey in San Antonio since 1909; one of the founders of San Antonio Real Estate Board; professional territory covers San Antonio and vicinity; member of the Bar in the State of Texas; twenty-five years' experience in the appraisal of real property including valuation of all types of urban properties and rural real estate; built and sold residences ranging in price from $5,000 to $35,000; active and extensive experience in the organization and administration of development and financing companies over a period of many years.

CLARIS M. ELMORE, SAN ANTONIO, TEXAS. Born in Unionville, Tennessee, in 1899; Associate Member and Executive Secretary of San Antonio Real Estate Board; Bexar County Fee Appraiser for HOLC; President of Bexar Water Control Improvement District No. 2; active in the appraisal of real estate since 1923; lecturer and author; graduate Middle Tennessee State Teacher's College, 1922; Principal Hustburg High School, Tennessee, 1922-23; rent collector and real estate salesman for J. L. Lytle Realty Company, 1923-26; Sales Manager and Manager of Insurance Department, J. L. Lytle Realty Co., 1926-31; qualified in Court as an expert on valuation of suburban acreage in 1928; has appraised properties for numerous insurance companies; eight years' experience in the building of small homes; appraisal experience includes the valuation of residential and commercial property, industrial property, farms, ranches, and vacant.

NATHANIEL B. BENDER, SEATTLE, WASHINGTON. Born in Pittsburgh, Pa., December 1898; Senior Deputy Appraiser, State of Washington, HOLC; professional territory covers the State of Washington, and Vancouver, B. C., Canada; licensed real estate Broker, State of Washington; Broker Member, Seattle Real Estate Board; 9 years experience in the appraising of real estate including the valuation of industrial property, commercial property, suburban stores and apartments, hotels, loft buildings, office buildings, etc.; Asst. Supt., Ranier National Park from April to September, 1919; University of Washington, 1919-1923; A. B. Degree with Major in Economics; active in real estate business since 1923; Charter Member, Seattle Junior Chamber of Commerce.

WALTER G. McLEAN, SEATTLE, WASH. Born in Worthington, Minn., 1881; President, Sparkman & McLean Company; Secretary-Treasurer, Sparkman, McLean, Newell & White; Secretary-Treasurer, Protective Investment Company; Treasurer, Scottish Rite Temple of Seattle; Active Member, Seattle Real Estate Board; A. B. Degree, University of Washington, 1905; L.L.B. Degree, University of Washington, 1907; Member, Phi Delta Phi (law scholarship society); 20 years experience in the appraising of real estate; licensed real estate broker in the State of Washington since 1907; qualified in Court as Expert in city real estate values in 1934 and "many times previously;" has appraised properties for Title and Trust Companies and Home Savings & Loan Association; valuation experience includes the appraising of vacant, farm lands, residences, industrial property, churches, apartment buildings, waterfront properties, dock properties, etc.

J. C. McQUIGG, SEATTLE, WASH. Born in Worcester, Ohio, in 1886; District Appraiser, HOLC; professional territory covers the State of Washington; full time salaried employee of the Federal Government; 9 years experience in the appraising of real estate including the valuation of apartments and office building properties: served for 5 years as Chief Clerk in the Department of Buildings, City of Seattle; for 9 years was engaged in the building of houses for sale in Seattle.

A. C. NEWELL, SEATTLE, WASH. Born in O'Neill, Nebraska, July 1895; Member of the firm, A. B. Newell & Son; Vice-President, Olalla Land Company; State Appraiser, Washington Agency, HOLC; Active Member, Seattle Real Estate Board; professional territory covers the State of Washington; 3 years, Liberal Arts and Law, at the University of Washington; also had special course in Accounting; entered firm of A. B. Newell & Son as partner in 1919; (firm was established in 1900); firm was the real estate outlet up to 1921 for the Scandinavian-American Bank, in which connection Mr. Newell made the appraisals; in 1919 was appointed Appraiser on probate matters for the Superior Court in which capacity he served for 4 years, valuing hundreds of properties including residences, farms, and factories; has appraised properties for the Trust Department of the National Bank of Commerce; served as Appraiser in court matters from 1920 to 1933 in condemnation appraisals for City, County, and State; served as Expert on values for joint railroads in 1925 and 1926 before the Tax Equalization Board of the State of Washington; served the State Tax Commission in 1932 to check values for Escheats and Inheritance Tax Division; appointed State Appraiser for HOLC in August, 1933; licensed Real

Estate Broker from 1919 to date; active in building and selling houses from 1919 to 1924.

BEN J. SMITH, SEATTLE, WASH. Born in Minneapolis, Minnesota in May, 1895; Sales Manager, White & Bollard, Inc.; Active Member, Seattle Real Estate Board and Member of its Appraisal Division; HOLC appraiser; professional territory covers Seattle and environs; Agent for General Insurance Co. of America; Correspondent, Prudential Insurance Company; Past President, Seattle Exchange Club; Lecturer and Teacher; 10 years experience in the appraising of real property, including the valuation of homes, stores, offices, vacant, bank buildings, and resort properties; completed course in Business Administration in the University of Washington.

J. H. SPARKMAN, SEATTLE, WASH. Born in Seattle, Washington in 1901; Secretary and Treasurer, Sparkman & McLean Company; Member and Director, Seattle Real Estate Board; professional territory covers King County, Washington; Graduate, College of Business Administration, University of Washington; special courses in the Oregon Agricultural College; completed course in Farm Appraising under the auspices of the Federal Land Bank; 10 years experience in the appraising of real estate; licensed real estate broker; qualified in Court as an Expert on investment property values; extensive experience in the appraising of farms; appraised over 750 properties for HOLC; appraised all new buildings constructed in the Ballard District of Seattle for the Assessor of King County; Chief Deputy Building Appraiser for the County Assessor; appraisal experience includes the valuation of apartments, fruit ranches, stores, farms, factories, gas stations, office buildings, and single family residences.

EDWIN G. WENDLAND, SEATTLE, WASH. Born in Superior, Wisconsin, December, 1898; Assistant State Appraiser, HOLC, State of Washington; (salaried employee of the Federal Government); professional territory covers the State of Washington; Past member of the Associated General Contractors of America; President, Commercial Construction Company; Speaker, Author, and Teacher; 9 years experience in the appraising of real estate, including the valuation of residences, apartments, store buildings, garages, service stations, and hotels; studied architectural engineering at the University of Washington from 1918 to 1921; 4 years experience with the Pearson Construction and Engineering Company and William Wills, general contractors; operated his own company—The Commercial Construction Company from 1925 to 1933; construction jobs ranged from $3,000 to $65,000.

Admitted Under Limited Specifications

(*Article II, Section* 3, *Sub-Section* C)

GEORGE FESPERMAN, WAYCROSS, GA. Born in Waycross, Ga., September, 1902; Individual membership in the National Association of Real Estate Boards; Director and Assistant Secretary, Waycross Building & Loan Association; Agent for Somerset Company and Calvert Mortgage Co.; Appraiser for HOLC, in Ware County; professional territory covers Ware County; B. S. Degree from the University of Georgia in Commerce in 1924; approximately 5 years experience in the appraising of residential property.

SAMUEL DE BOE WALKER, KEYPORT, NEW JERSEY. Born in Newark, N. J.; Secretary and Treasurer, Morrisey & Walker; President, Cliffwood Beach Co.; Secretary and Treasurer, Laurence Harbor, Inc.; Director, Keyport Banking Co.; President, Secretary, or director in a number of other real estate, investment, and water companies; Regular Member, Red Bank Real Estate Board, Middlesex County Real Estate Board, and the New Jersey Association of Real Estate Boards; professional territory covers Middlesex and Monmouth Counties, N. J.; 10 years experience in the appraising of real estate; over 20 years experience in general real estate field in Newark, N. J., New York, and Monmouth and Middlesex Counties, N. J.; Official Appraiser for the New Jersey State Highway Dept. for last 3 years; has made approximately 2,000 appraisals for condemnation purposes; Expert Appraiser and Investigator for the State of New Jersey in the case of Lehigh Valley R. R. vs. State of New Jersey for tax reduction.

RUDOLPH KRUGER, NEWARK, N. J. Born in Boston, Massachusetts, April, 1895; Active Member, Newark Real Estate Board; professional territory covers Northern New Jersey; Appraiser of real estate, Architect, and Engineer; Vice-President, New Order-Equity Building & Loan Association; Director, Druggist Building & Loan Association; President, Newark Society of Architects; Member, American Institute of Architects; Member, New Jersey Association of Professional Engineers and Land Surveyors; Graduate, University of Michigan in 1918 with a B. S. Degree in Architectural Engineering; completed real estate appraising courses in Rutgers University; 10 years experience in the valuation of real estate, including the appraising of land, golf courses, residences, stores, apartments, industrial terminals, lodge buildings, etc.

GEORGE H. SNYDER, DAYTON, OHIO. Born in Dayton, Ohio in 1885; Active Member, Dayton Real Estate Board; Secretary of the Dayton Real Estate Board, 1913-1915; Secretary, Ohio Association of Real Estate Boards in 1914; Appraiser, HOLC; professional territory covers Dayton and Montgomery County; 20 years experience in the valuation of real estate including the appraising of homes, apartments, commercial property, estates, etc.

RICHARD A. HURLEY, PROVIDENCE, RHODE ISLAND. Born in Providence, R. I.; Charter Member and past President, Providence Real Estate Board; Member, Rhode Island Bar since 1902; Member, Zoning Board of Review since 1923; Member, Insurance Association of Providence for about 30 years; Member, Board of Directors, Providence Mortgage Corporation; professional territory covers the State of Rhode Island; more than 30 years experience in the appraising of real estate; formerly with G. L. & H. J. Gross, Real Estate and Insurance.

JOSH EWING, DONNA, TEXAS. Born in Hawkins County, Tennessee, in June, 1888; professional territory covers lower Rio Grande Valley of Texas; ten years' experience in the appraisal of real property, including valuation of business property, farms and residences; qualified in Court as an expert on farm valuations in 1931; thirteen years' experience in the construction of buildings built for business and residential occupancy.

HARRY C. MILLER, WHEELING, W. VA. Born in Jewett, Ohio, in June, 1888; Secretary-Treasurer, The Wheeling-Realty Co.; Director, Wheeling Real Estate Board; States Councillor, National Assn. of R. E. Boards; Fee Appraiser, HOLC; professional territory covers West Virginia and Ohio; 18 years experience in the appraising of real estate including the valuation of vacant, residences, theatres, railroad rights-of-way, gas stations, offices, stores, factories, hospitals, farms; licensed real estate Broker in West Virginia from 1909 to 1934 inclusive and in Ohio from 1926 to 1934 inclusive; qualified in Court as an Expert on business property values in 1926; has appraised for the Equitable Life Assurance Society of New York; has appraised for the Wheeling Dollar Savings & Trust Co.; has had experience in general repairing on property in managing estates.

(*Article II, Section* 3, *Sub-Section* D)

LEO V. BOYLE, MARTELLE-BOYLE, INC., PAWTUCKET, R. I. Born in Woonsocket, Rhode Island, April, 1886; Member, Past President, Director and Chairman of all Committees at different times during the past 12 years of the Pawtucket Real Estate Exchange; States Councillor National Association of Real Estate Boards; Vice-President, Director, and Chairman of Real Estate Committee of the Chamber of Commerce and Business Men's Association of Pawtucket; professional territory covers Pawtucket, Providence, and cities and towns within a radius of 10 miles thereof; Author and Lecturer; academic training in La Salle Academy, Providence, Brown University, Rhode Island School of Design, Boston University, and Pace & Pace School of Accountancy & Finance; 12 years experience in the appraising of real estate; qualified as Expert Witness since 1932 in the Superior Court of Providence County and also before the Local Zoning Board and the Probate Court; supervised construction on several new residences, and roofing and general repairs on more than 200 homes and other types of structures; more than 12 years experience in real estate sales; valuations include appraisals of leaseholds, stores, tenements, cottages, vacant, apartment properties, houses, hotels, etc.

WILLIAM BUSH, MUSKEGON, MICHIGAN. Born in Muskegon, Michigan, October, 1890; District Appraiser, HOLC; full time salaried employee of HOLC; formerly Manager of the Bush Lumber Company; formerly Estimator Muskegon Lumber & Fuel Company; formerly in Real Estate & Tax Dept., Grand Rapids & Indiana Railway; 15 years experience in the appraising of real property; qualified in Court as an Expert on residential property values in Muskegon in 1925; 15 years experience in the private building and selling of homes; valuation experience includes the appraising of residential and commercial properties.

Roster of Members

ALABAMA

Birmingham
HOLLIS BUBH, Birmingham Underwriting Office, F. H. A. .... Jamison Companies Bldg.
JOHN D. CHICHESTER .... 708 Jackson Bldg.
FRANK B. CLARK .... 220 N. 21st St.
HILL FERGUSON .... 221 N. 21st St.
HAROLD M. HENDERSON .... 2105 1st Ave.

CALIFORNIA

Glendale
PETER HANSON .... 520 Security Bldg.

Long Beach
J. MORTIMER CLARK .... 262 Lindero Ave.
J. C. HOFFMAN .... 307 F. & M. Bank Bldg.
A. G. MASPERO .... 409 Security Bldg.
T. F. MERRICK .... Heartwell Bldg.

Los Angeles
RALPH BRASHEAR .... 4157 W. 5th St.
DAVID W. BUSH .... 616 O. T. Johnson Bldg.
GEORGE H. COFFIN, JR. .... 408 Hollywood Security Bldg.
AYERS J. DUBOIS .... 7079 Hollywood Blvd.
ARTHUR L. LAYDEN .... 417 S. Norton Ave.
NATHAN H. LIBOTT .... 6253 Hollywood Blvd.
STANLEY L. McMICHAEL .. 6785 Whitley Terrace
JOHN W. SALMON .... 2912 Brighton Ave.
D. D. SAYER, JR. .... 4100 E. 9th St.
GEORGE L. SCHMUTZ .. 8703 Santa Monica Blvd.
CHARLES B. SHATTUCK ... 2510 S. Vermont Ave.
IVAN A. THORSON .... 500 Corporation Bldg.
FRED E. VINCENT .... 3440 Winslow Drive
RICHARD C. WILLIS .... 2221 W. 21st St.

Oakland
W. S. GUILFORD, Athens Athletic Club .... 12 & Clay Sts.
JAMES G. STAFFORD .... 5820 Presley Way

Sacramento
MARK CHEESMAN .... 2964 Govan Way
A. J. DELANO .... 809 J St.

South Pasadena
FRANK C. WOOD, JR .... 1601 Ramona Ave.

Southgate
LOUIS R. ARDOUIN .... 2931 Willow Place

Wilmington
THOMAS FRANCIS MASON .... Box 122

CONNECTICUT

Hamden
HENRY MUSCH, JR .... 42 Thornton St.

Hartford
JOSEPH P. KENNEDY .... 720 Main St.

New Haven
CHARLES T. LINCOLN .... 205 Church St.
JOHN T. SLOAN .... 129 Church St.

Stamford
RICHARD W. FITCH .... 292 Main St.

Waterbury
GEORGE B. HORAN .... 115 Randolph Ave.

DISTRICT OF COLUMBIA

Washington
WM. D. BURKHEIMER, ... Underwriting Division, F. H. A.
WARREN S. DEAN (HOLC) .... 1619 R. St.
LEONARD DOWNIE (HOLC) .... H. O. L. C. Bldg.
HAROLD E. DOYLE .... 738 15th St.
JOSEPH A. HERBERT, JR ... 1013 15th St., N. W.
A. C. HOUGHTON .... 909 15th St., N. W.
MORTON J. LUCHS .... 1505 H. St., N. W.
F. ELIOT MIDDLETON .... 205 Investment Bldg.
CUTHBERT E. REEVES .... 511 H. O. L. C. Bldg.
R. MARBURY STAMP .... 1421 H. St., N. W.
CHARLES H. TOMPKINS .. 1630 Connecticut Ave.
CURTIS WALKER .... Tower Bldg.

FLORIDA

Fort Myers
HARRY J. WOOD .... 1112 1st St.

Jacksonville
V. M. COVINGTON .... 1316 Graham Bldg.
LOUIS R. FENDIG ...... 2nd Fl. Buckman Bldg.
MYRON L. HOWARD ...... 516 Professional Bldg.
RICHARD E. KNIGHT .... c/o Home Owners Loan Corp.
J. ALVIN REGISTER .... 114 Graham Bldg.
BAINBRIDGE RICHARDSON .. 117 W. Forsyth St.
WALTER D. SHELLY .... 414 Greenleaf Bldg.
L. K. TUCKER, JR .... 319 W. Forsyth

Lakeland
JOHN L. WRIGHT .... 117 S. Tenn. Ave.

Miami
KENNETH S. KEYES .... 13 W. Flagler St.
ADRIAN McCUNE .... 1017 Security Bldg.
D. EARL WILSON .... 1017 Security Bldg.

Orlando
GEORGE F. BRASS .... P. O. Box 1052
HAROLD V. CONDICT .... P. O. Box 1052
C. W. REX .... Box 293
J. C. STEWART .... 715 State Bank Bldg.

Sarasota
FRED L. PALMER .... 482 Main St.

St. Petersburg
JOHN B. GREEN .... 11 4th St., N.
WARREN P. HUNNICUTT ...... 302 Central Ave.

Tampa
CHARLES P. GLOVER .... 303 Citrus Exchange Bldg.

Vero Beach
FRANK R. JEWETT .... P. O. Box Q

West Palm Beach
FRANK J. ANDERSON .... 215 S. Olive St.

GEORGIA

Atlanta
BRYAN M. GRANT .... 206 Grant Bldg.
ROBERT R. OTIS .... 15 Auburn Ave.

ILLINOIS

Chicago
KENNETH CALHOUN BROWN .... 110 S. Dearborn St.
HARRY S. CUTMORE ..... 838 1st Natl. Bk. Bldg.
HARRY GOLDSTINE .... 134 N. La Salle St.
JOHN P. HOOKER .... 140 S. Dearborn St.
A. K. HORNOF .... 1411 1st Natl. Bk. Bldg.
WARD T. HUSTON .... 110 S. Dearborn St.
ISAAC KEIM .... 2526 S. Wabash Ave.
ARTHUR KRUGGEL .... 4865 Broadway
WALTER R. KUEHNLE ..... 140 S. Dearborn St.
MARK LEVY .... 7 S. Dearborn St.
ERNEST H. LYONS .... 120 S. La Salle St.
WILLIAM E. MOSBY .... 8032 Cottage Grove Ave.
GEO. R. QUIN .... 36 S. State St.
HENRY GEORGE SLAVIK ...... 10 S. La Salle St.
PERCY E. WAGNER .. F. H. A., 134 N. La Salle St.
J. SOULE WARTERFIELD .... 8 S. Dearborn St.

Galesburg
RALPH V. FIELD .... 203 Bk. of Galesburg Bldg.

Joliet
WILLIAM W. MOLLAN .... 405 D'Arcy Bldg.

Waukegan
OSCAR SODERQUIST .... 22 Maple Ave.

INDIANA

Gary
CHARLES D. DAVIDSON .... 504 Broadway
J. R. DAVIDSON .... 504 Broadway

Hammond
GEORGE N. BECKER .... 7407 Jackson Ave.
SAMUEL C. ENNIS .... 1st Trust Bldg.

Indianapolis
GEORGE A. KUHN .... 706 Guaranty Bldg.

IOWA

Cedar Rapids
JOHN J. WAGNER .... 408 American Trust Bldg.

Des Moines
ARTHUR S. KIRK .... 900 Grand Ave.

Sioux City
WILLARD L. FROST .... Security Bank Bldg.

KANSAS

Hutchinson
J. C. McNAGHTEN .... 1st National Bldg.

KENTUCKY

Louisville

I. SIDNEY JENKINS......Louisville Trust Bldg.
PAUL F. SEMONIN, SR.........321 Starks Bldg.

LOUISIANA

Shreveport

T. S. NEAL............330 Ricou-Brewster Bldg.
R. S. WHITTEN....................210 Milam St.

MARYLAND

Baltimore

OREGON MILTON DENNIS..................
......................211 New Amsterdam Bldg.
W. E. FERGUSON...........100 E. Pleasant St.
HARRY E. GILBERT..........2 E. Lexington St.
ALBERT C. HOFRICHTER....2 E. Lexington St.
CHAS. H. STEFFEY...........336 N. Charles St.

MASSACHUSETTS

Boston

W. H. BALLARD.....................45 Milk St.
EDWARD F. CASSELL.............18 Tremont St.
JAMES D. HENDERSON.......209 Washington St.
NORMAN W. KENNY..........82 Devonshire St.
ROBERT C. NORDBLOM...........18 Oliver St.

Fall River

J. FREDERICK BECKETT.......49 Purchase St.
MYER MARKELL.................Granite Block
EVERETT N. SLADE.............57 N. Main St.

Lowell

JOHN C. PERCIVAL.................36 John St.

Springfield

HENRY M. CLARK................100 Broadway
BION T. WHEELER...............1562 Main St.

Worcester

MAURICE F. REIDY.................2 Foster St.

MICHIGAN

Detroit

GEORGE W. DRENNAN.....300 Penobscot Bldg.
ALFRED W. PALMER, 1920 Union Guardian Bldg.

Grand Rapids

J. G. LLOYD ALEXANDER.....616 Murray Bldg.
ISAAC BLANDFORD.....3331 College Ave., N. E.
LEON T. CLOSTERHOUSE..................
..................American Home Security Bank
JOHN GARFIELD EMERY...................
.........................205 Federal Square Bldg.
HARRY J. FULLER.....The Michigan Trust Co.
WALTER S. PALMER...104 Federal Square Bldg.
ARENT VAN STENSEL.........................
......................1006 G. R. Savings Bank Bldg.
CHARLES H. WARDEN, 425 American Bank Bldg.

Lansing

EDWARD G. HACKER........228 S. Capitol Ave.

Pontiac

PAUL A. KERN.........1st National Bank Bldg.

MINNESOTA

Minneapolis

NORMAN L NEWHALL.......519 Marquette Ave
EDWIN L. SOMERVILLE.....................
....................519 Metropolitan Bank Bldg.
J. FREDERICK SUTHERLAND...............
.................1477 Northwestern Bank Bldg.

MISSISSIPPI

Jackson

J. O. MANNING.................3012 N. State St.

MISSOURI

Clayton

GUNTHER MEIER...............18 N. Meramec

Joplin

ROLLA E. STEPHENS..........711 Virginia Ave.

Kansas City

GEORGE M. BLISS...............17 E. 10th St.
C. F. CURRY...................921 Baltimore Ave.
E. F. PIERSON.............311 Commerce Bldg.

St. Louis

W. C. BERNARD..................317 N. 11th St.
WILLIAM W. BUTTS............803 Chestnut St.
HERBERT O. BYRD.............818 Chestnut St.
CHARLES J. DALY.............801 Chestnut St.
OTTO J. DICKMANN............623 Chestnut St.
CHESTER A. DOUGHERTY........109 N. 7th St.
JOHN H. FARISH...............713 Chestnut St.
JOSEPH W. HANNAUER........811 Chestnut St.
MONROE H. RODEMYER, 40 Washington Terrace
N. S. WOOD.....................706 Chestnut St.

NEBRASKA

Omaha

C. D. GLOVER...............1221 City Natl. Bk.
LEWIS C. SHOLES...........305 Paterson Bldg.
CLINTON B. STUHT..........Aquila Court Bldg.

NEW JERSEY

Atlantic City

MAURICE A. KELLEY......20 S. Tennessee Ave.

Butler

FRANK B. FAY, JR................Fayson Lake

Camden

RALPH D. BAKER................924 Broadway
W. W. CHALMERS............4th & Federal Sts.
WAYLAND P. CRAMER...........525 Cooper St.
J. WILLIAM MARKEIM.....4th and Federal Sts.
ABRAHAM J. ROSENFELD....114 N. Broadway
LEON E. TODD..............2623 Westfield Ave.
PHILIP ZINMAN......................333 Arch St.

East Orange

FRANK H. TAYLOR..................520 Main St
HARRY A. TAYLOR..................520 Main St.

Elizabeth

JOHN K. LEEDS...............10 Westfield Ave.
B. B. MILLER......................215 Broad St.
BURTON THOMPSON..............18 W. Jersey
MAX TIEGER......................207 Broad St.

Hackensack

ISIDORO QUINTANA........Court House Square

Jersey City

GEORGE E. DUGAN............345 Central Ave.
PERCY A. GADDIS.........Jersey Journal Bldg.
D. E. C. SOMERS...............700 Bergen Ave.

Linden

JOHN FEDOR..................540 S. Wood Ave.

Metuchen

J. K. POWELL.................Main & Middlesey

Newark

MURRAY APFELBAUM............786 Broad St.
JOHN J. BERRY....................930 Broad St.
JOS. L. FEIBLEMAN...........17-19 William St.
FRANKLIN HANNOCH............14 Park Place
LOUIS HERMAN...................60 Park Place
JOHN A. LINNETT.............29 Elizabeth Ave.
E. J. MAIER.......................988 Broad St.
JOEL SCHLESINGER...............31 Clinton St.
HARRY J. STEVENS...........478 Central Ave.

New Brunswick

JAS. A. O'CONNELL...............392 George St.

Ocean City

ELMER JACKSON PEARL............311 8th St.

Perth Amboy

MORRIS GOLDFARB...........279 Madison Ave.

Ridgewood

SAMUEL S. WALSTRUM.............Ridgewood

Rutherford

CHARLES A. VAN WINKLE, 1 & 2 Station Square
THEODORE VAN WINKLE.....1 Station Square

NEW YORK

The Bronx, N. Y. C.

HERMAN A. ACKER.....318 E. Kingsbridge Rd.
SAMUEL EDMUND McRICKARD..............
...........................400 E. Fordham Rd.

Brooklyn

STEPHEN F. BARRERA......191 Joralemon St.
GEORGE BAUR..............2609 Clarendon Rd.
JAMES B. FISHER................160 Remsen St.
GEORGE H. GRAY............310 Ashland Place
BERNARD F. HOGAN.............431 5th Ave.
ARTHUR J. HORTON........1214 Flatbush Ave.
GEORGE S. HORTON..........59 Lafayette Ave.
FRANK M. McCURDY............158 Remsen St.
JAMES F. MATTHEWS.........215 Montague St.
M. C. O'BRIEN..................798 Nostrand Ave.
CHARLES PARTRIDGE......397 Flatbush Ave.
LEWIS H. POUNDS..................32 Court St.
FENWICK B. SMALL...........1124 Myrtle Ave.
R. W. WALDEN..................162 Remsen St.

Buffalo
A. P. ALLINGHAM.....63 Niagara St.
P. V. BOWEN.....1006 Ellicott Sq.
WALTER W. COHN.....155 Pearl St.
Jamaica
ARMAND BRUNSWICK.....90-26 161st St.
WILLIAM F. McDERMOTT.....89-70 162nd St.
GRANVILLE H. ROME.....160-09 Jamaica Ave.
Long Island City
AXEL JOHN SWENSON.....41-27 29th St.
Mechanicville
FRANZ H. MOAK.....37 N. Main St.
Mineola
R. T. CHILDS.....222 Front St.
Mount Vernon
ROBERT A. ANDERSON.....34 E. 1st St.
EDWARD H. HUFNAGEL.....28 E. 1st St.
New York City
DALTON GRANGER DE WITT.....22 W. 48th St.
A. N. GITTERMAN.....45 E. 49th St.
BRACTON GOLDSTONE.....10 E. 40th St.
FRANK D. HALL.....393 7th Ave.
JOHN R. HOYT.....17 E. 42nd St.
ROBERT HUNTLEY.....67 Liberty St.
S. E. KAZDIN.....70 Pine St.
JOHN E. McGOVERN.....552 Riverside Drive
CLARENCE C. MERRITT.....50 E. 42nd St.
CHARLES W. MORRISON.....67 Liberty St.
IRVING I. ROSENBAUM.....384 Broadway
Rochester
ABRAHAM BERGHASH.....130 Clinton Ave., S.
Scarsdale
S. L. ANGELL.....30 E. Parkway
Syracuse
JAMES H. DAWLEY.....121 E. Genesee St.
EDWARD EAGAN...204 Starrett-Syracuse Bldg.
White Plains
VERNON N. BAILEY.....162 Main St.
ALBERT W. LOCKYER.....Depot Plaza
EDWARD M. WEST.....Opposite Station
Yonkers
EDWARD C. HEALD.....20 S. Broadway
PAUL WEGENER.....2 Hudson St.

NORTH CAROLINA

Asheville
B. H. SUMNER.....Asheville
Charlotte
S. T. HENDERSON.....111 Hermitage Rd.

OHIO

Akron
JOHN C. KYLE.....520 S. Firestone Blvd.
W. F. VOGES.....1109 S. Main St.
Alliance
L. D. SCRANTON.....341 E. Main St.
Canton
MARK HAMBLETON.....417 Mellett Bldg.
WILLIAM J. UEBELHART.....419 Mellett Bldg.
Cincinnati
HOWARD R. BURGESS.....104 Neave Bldg.
FRED DROEGE, JR.....104 Neave Bldg.
J. GEORGE EGE.....3040 Urwiler Ave.
JAMES W. FARRELL.....1142 Herschel Ave.
JOHN H. FREY.....1334 Herschel Ave.
JAMES J. GROGAN...S. W. Cor. 5th & Main Sts.
JOSEPH B. HALL.....35 E. 7th St.
ALBERT J. MAYER.....1515 1st Natl. Bk. Bldg.
P. LINCOLN MITCHELL.....
.....S. W. Cor. 5th & Main Sts.
RUSSELL PRICE.....S. W. Cor. 5th & Main St.
WALTER S. SCHMIDT, S. W. Cor. 5th & Main Sts.
LEWIS R. SMITH.....409 American Bldg.
JOHN B. SPILKER.....104 Neave Bldg.
L. F. STEELE.....209 W. 7th St.
Cleveland
TALMAGE D. AUBLE.....15509 Madison Ave.
ROBERT F. BERWALD...1220 Williamson Bldg.
BEN B. BEYER.....1425 Williamson Bldg.
JAMES G. BINGHAM.....1227 Williamson Bldg.
RAYMOND T. CRAGIN...825 Natl. City Bk. Bldg.
W. J. CRAWFORD, JR.....720 Cuyahoga Bldg.
WALTER R. GRANGER...310 Hippodrome Bldg.
JOSEPH J. HAAS.....200 Marshall Bldg.
JOSEPH LARONGE.....600 Union Trust Bldg.
EDWIN H. McINTOSH.....
.....1029 Society for Savings Bldg.
WARREN L. MORRIS..420 Natl. City Bank Bldg.
E. L. OSTENDORF.....1105 Chester Ave.
CARL A. PALMER.....850 Euclid Ave.
MAX J. RUDOLPH.....1105 Chester Ave.
CARLTON SCHULTZ.....1223 Schofield Bldg.
ALEXANDER S. TAYLOR.1930 Union Trust Bldg.
V. C. TAYLOR, II.....1930 Union Trust Bldg.
WM. J. VAN AKEN.....1715 Euclid Ave.
Cuyahoga Falls
FRED E. SMITH.....608 Broad Blvd.
Geneva
J. EARL MILLER.....Miller Bldg.
Massillon
CHARLES N. HOSTETTER..716 Lincoln Way, E.
Medina
C. L. BAKER.....R. D. 7
Springfield
H. S. KISSELL.....927 1st Natl. Bk. Bldg.
Toledo
CLAUDE A. CAMPBELL.....707 Ohio Bank Bldg.
GEO. P. CROSBY.....609 Madison Ave.
HOWARD ETCHEN.....725 Adams St.

PENNSYLVANIA

Bethlehem
WM. C. BADER.....214 Odd Fellows Bldg.
Erie
CARL G. WRIGHT.....204 Marine Bank Bldg.
Harrisburg
EVAN J. MILLER.....213 Locust St.
Lancaster
HARRY W. BUTTS.....24 E. Orange St.
Lansdowne
W. RAYMOND EVANS.....19 N. Lansdowne Ave.
Philadelphia
PHILIP N. ARNOLD.....1324 Walnut St.
BOYD T. BARNARD.....123 So. Broad St.
E. L. CARLSON..The Parkway at Fairmount Ave.
C. HARRIS COLEHOWER.....5942 Chestnut St.
FRANK P. FELTON, JR.....37 S. 16th St.
SAMUEL T. HALL.....1500 Locust St.
C. HARRY JOHNSON.....Packard Bldg.
S. CRAIG KANE, JR.....511 Land Title Bldg.
PHILIP W. KNISKERN.....1614 Walnut St.
MAURICE R. MASSEY.....S. E. 13th & Green Sts.
WILLIAM I. MIRKIL.....1500 Walnut St.
ROBERT J. NASH.....1214 Locust St.
RICHARD J. SELTZER.....15th & Locust Sts.
J. WILLISON SMITH.....100 S. Broad St.
MARTIN STOTZ.....516 Land Title Bldg.
AMBROSE J. WINDER.....1420 Walnut St.
Pittsburgh
J. W. CREE, JR.....211 Fourth Ave.
Wilkes Barre
C. A. LEIGHTON.....Deposit Savings Bk. Bldg.
EDWARD L. LEWITH.....428 Miners Bk. Bldg.

RHODE ISLAND

Providence
HAL FORRESTER COOMBS.....211 Waterman St.
JAMES DEVINE.....801 New Industrial Tr. Bldg.

TENNESSEE

Memphis
GEORGE W. PERSON..503 Manhattan Bank Bldg.
C. STOTT NOBLE.....1753 Peabody Ave.
Nashville
J. W. DENIS.....209 Warner Bldg.
J. W. GRAHAM.....930 Kirkwood

TEXAS

Dallas
HENRY S. MILLER.....405 Southland Life Bldg.
Fort Worth
MEREDITH R. CARB.....1231 5th Ave.
Houston
W. G. BURCHFIELD.....803 2nd Natl. Bk. Bldg.
San Antonio
PAUL W. ADAMS.....South Texas National Bank
A. H. CADWALLADER, JR.....
.....920 Nix Professional Bldg.
L. A. CASEY.....317 North St. Mary's St.
CLARIS M. ELMORE.....411 Insurance Bldg.
R. W. PATTON.....614 Travis Bldg.

UTAH

Salt Lake City
EDWARD M. ASHTON.....320 Kearns Bldg.

VIRGINIA

Clarendon
CARROLL WRIGHT..524 Strong St., Lyon Village

Richmond
JOHN W. BATES..................723 E. Main St.
HENRY S. RAAB..................710 E. Main St.
JOHN SLOAN........................18 N. 8th St.
J. GUTHRIE SMITH.........5104 Riverside Drive
MORTON G. THALHIMER......1013 E. Main St.

WASHINGTON

Seattle
NATHANIEL B. BENDER....302 Republic Bldg.
LEONARD DOWNIE ....
WM. A. EASTMAN..............41? University St.
WALTER G. McLEAN...........1108 Third Ave.
J. C. McQUIGG...................1910 N. 39th St.
A. C. NEWELL.......1520 Westlake Square Bldg.
GEORGE I. NOYES, .1502 1411 Fourth Ave. Bldg.
BEN J. SMITH..............5252 16th Ave., N. E.
J. H. SPARKMAN...................1108 3rd Ave.
EDWIN G. WENDLAND....845 Bellevue Ave., N.
J. ARTHUR YOUNGER..........1233 E. 88th St.

Walla Walla
C. C. CONNER..............First National Bank

WEST VIRGINIA

Bluefield
S. W. FLORENCE................309 Peery Bldg.
T. O'J. WILSON...................409 Peery Bldg.

Charleston
CHARLES UHRIG............................
.............Box 1019 Charleston Natl. Bk. Bldg.

WISCONSIN

Madison
HENRY H. BUSH...................311 State St.

Milwaukee
K. LEE HYDER............525 E. Michigan St.

CANADA

London, Ontario
BERT WEIR...................156½ Dundas St.

Toronto, Ontario
CYRIL R. DE MARA................372 Bay St.
FRANK McLAUGHLIN............34 King St. W.

Limited Members

DISTRICT OF COLUMBIA

Washington
GEO. P. WILLIAMS.............H. O. L. C. Bldg.

GEORGIA

Waycross
GEORGE FESPERMAN...........208 Parker St.

MICHIGAN

Muskegon
WILLIAM BUSH..................38 Diana Ave.

NEW JERSEY

Keyport
SAMUEL DE BOW WALKER..101 Atlantic Ave.

Newark
RUDOLPH KRUGER..................11 Hill St.

OHIO

Dayton
GEORGE H. SNYDER......1040 Third Natl. Bldg.

RHODE ISLAND

Pawtucket
LEO V. BOYLE......................44 Broad St.

Providence
RICHARD A. HURLEY.723 Hospital Trust Bldg.

DONNA, TEXAS

JOSH EWING ....Donna

WEST VIRGINIA

Wheeling
HARRY C. MILLER....313 Wheeling Steel Bldg.

SAMUEL C. KANE

The following resolution was passed by unanimous vote of the Institute at Houston, Texas, on January 24, 1935:

The Members of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards in general session assembled at Houston, Texas, this 24th day of January, 1935, learn with profound regret of the death of Samuel C. Kane.

Mr. Kane was long affiliated with appraisal activities in the National Association of Real Estate Boards. As Organization member of this Institute, he served it in an executive capacity since its inception.

He was outstanding in his profession and in his personal character, of genial disposition, and a loyal friend. His loss to his friends and to the members of this Institute is irreparable.

NOW, THEREFORE, BE IT RESOLVED that we express to his family our sincere sympathy in their bereavement; that this resolution be spread upon our minutes, and a copy forwarded to his family.

The Journal of Real Estate Management

published quarterly by

The Institute of Real Estate Management of the National Association of Real Estate Boards

NUMBER ONE—

Which Managers Qualify, *by Howard E. Haynie*
Auditing City Property, *by Alexander Eulenberg*
Security Devices in Leases, *by George F. Anderson*
The Science of Real Estate Management, *by Delbert S. Wenzlick*
Unit Cost vs. Unit Consumption, *by James C. Downs, Jr.*
Creative Management, *by C. A. Mullenix*
Insurance Requirements, *by Arthur G. Hailand*
Air Conditioning of Buildings, *by Samuel R. Lewis*
Purchasing, *by Kenneth Cotton Brown*

NUMBER TWO—

Inspection of Apartment Properties, *by Oscar H. Boenicke*
Use of Color in Decorating, *by Wilfred C. Woodyard*
Scientific Combustion Factors, *by E. E. Chilberg*
Do Furnishings and Service Pay, *by Kendall Cady*
Management Accounting of Today, *by Clifford A. Ravenhill*
Managing Multiple Apartment Garages, *by T. Roger Keane*
Accrual System of Accounting, *by A. F. Mohl*
Building and Operating a Management Business, *by Arthur S. Kirk*
Rehabilitation and Management of Farms, *by C. J. Claasen*
Modernizing Properties, *by Leigh Gignilliat*
Management of Properties in Receivership, *by Kenneth Cotton Brown*
Obligations and Liabilities of Property Managers, *by George F. Anderson*

NUMBER THREE—

Economics of Modernization, *by L. W. Hilton*
Better Lawns, *by William Beaudry*
Window Treatment and Its Cost, *by Everett S. Cason*
Selecting the Elevator Maintenance Organization, *by J. C. Bebb*
Institutional Advertising, *adapted by Harry Grant Atkinson*
Creating Standard Decorations, *by F. H. Coy*
Eliminating Losses in the Housekeeping Department, *by James A. Riner*
Percentage Leases, *by T. F. Merrick, M. A. I.*
Developing a Collection Policy, *by Ivan Barton Goode*
Setting Labor Production Standards, *by James C. Downs, Jr.*
The Routine of Taking Over New Properties, *by Louis Maginn*
Creating New Business, *by C. Armel Nutter*
The Standard Classification of Accounts.

Price: $1.25 the copy; $5.00 the year.

Address Orders and Make Checks Payable to

THE JOURNAL OF REAL ESTATE MANAGEMENT

59 East Van Buren Street, Chicago, Illinois

PRINTING PRODUCTS CORPORATION—CHICAGO